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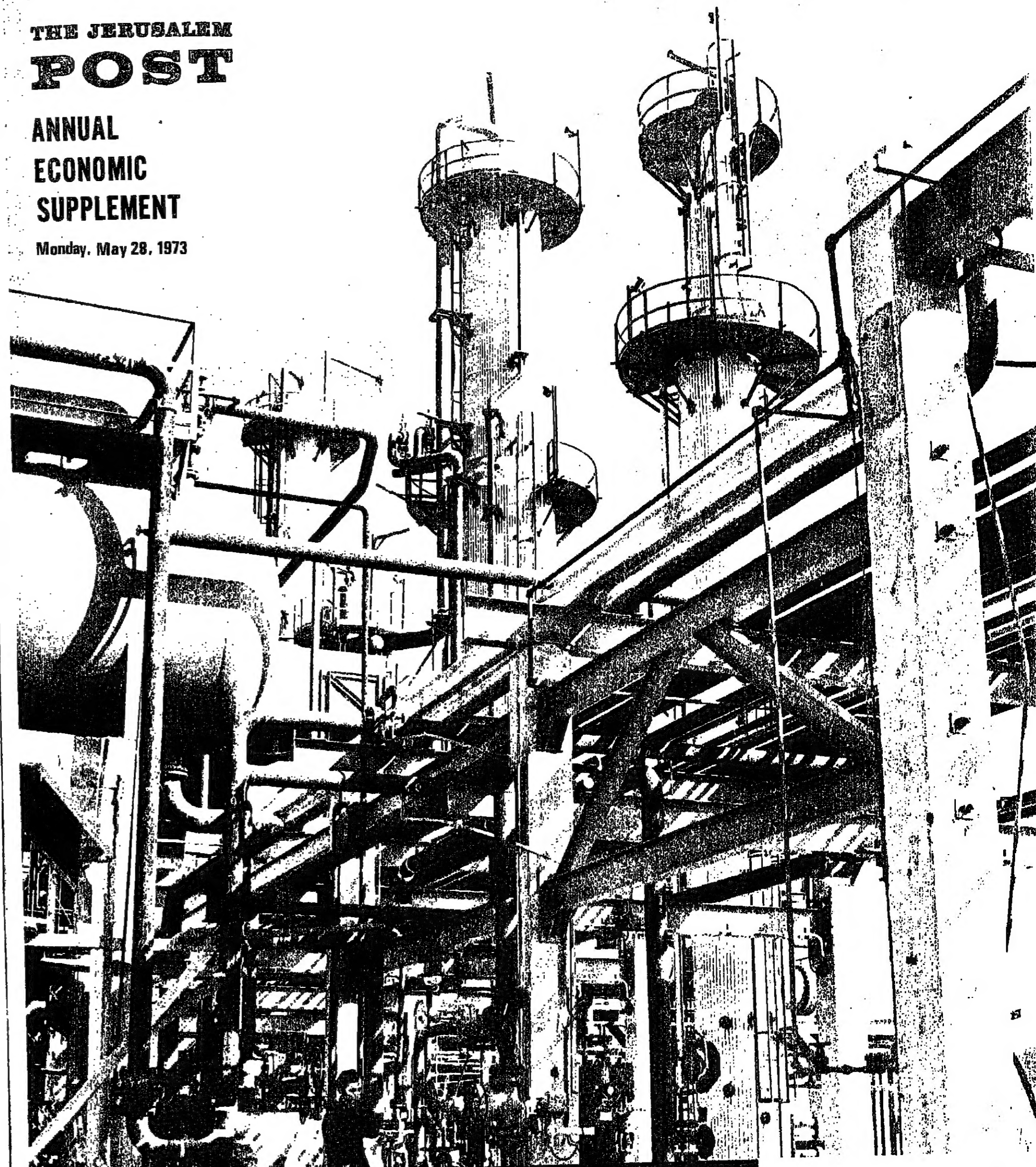


Dahaf - Photo Hamar

**THE JERUSALEM
POST**

**ANNUAL
ECONOMIC
SUPPLEMENT**

Monday, May 28, 1973

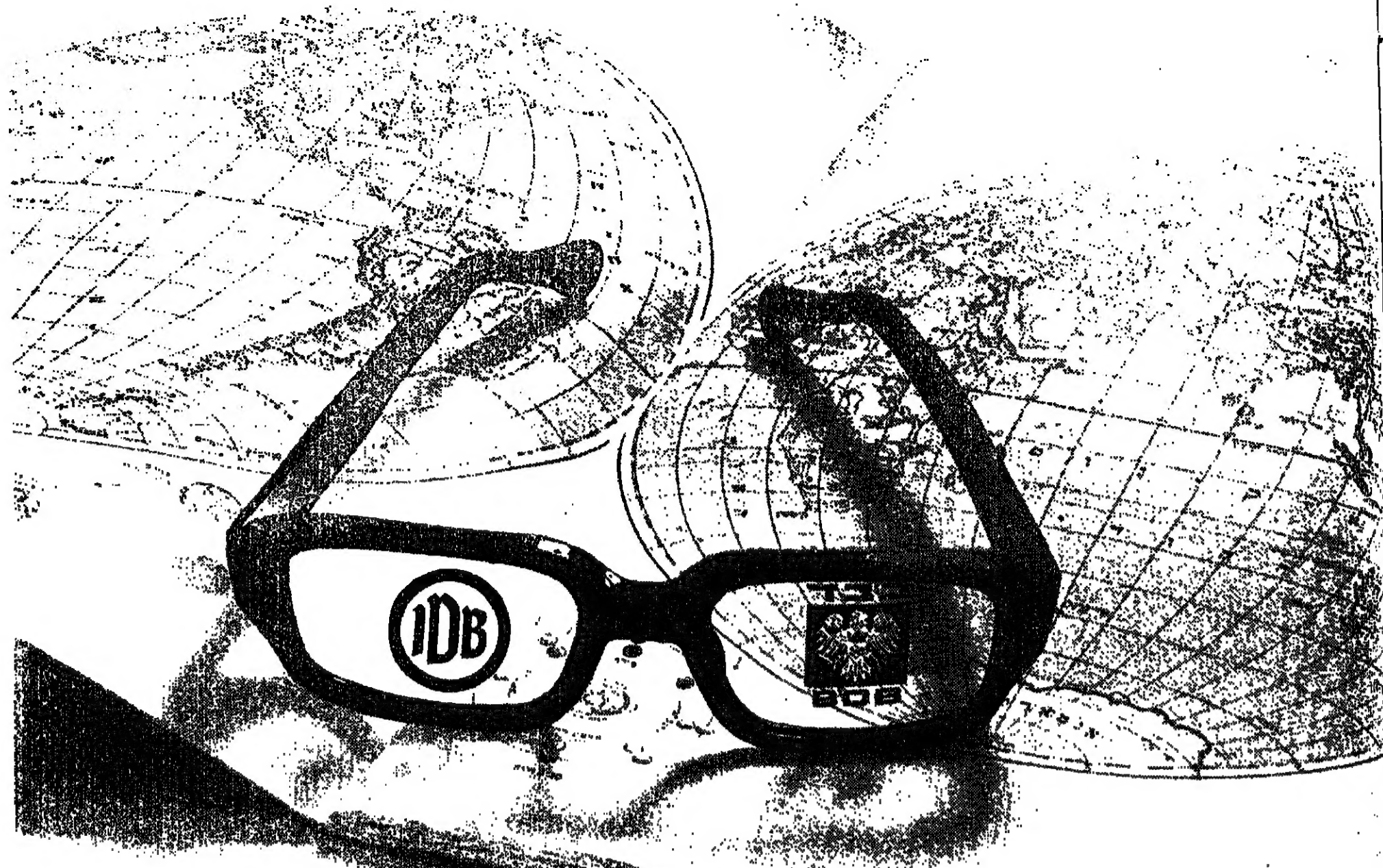


**Hevrat Ovdim
jubilee
1923-1973**

**The Prime Minister's
Third Economic Conference
Jerusalem, May 1973**

**50th anniversary of
the Manufacturers
Association of Israel
1923-1973**

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THE JERUSALEM POST ANNUAL ECONOMIC SUPPLEMENT

MONDAY, MAY 28, 1978

THE JERUSALEM POST

Annual

economic supplement

this year is published in conjunction with the Prime Minister's Third Economic Conference, which opened in Jerusalem last night, and marks the Jubilee of Hevrat Ovdim and also the 50th anniversary of the Manufacturers Association of Israel.



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Pinhas Sapir



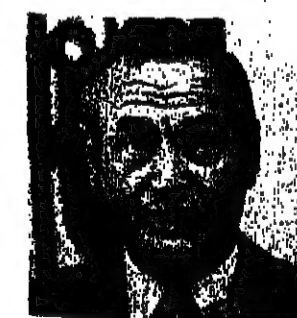
Michael Tsour

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Sam Rothberg

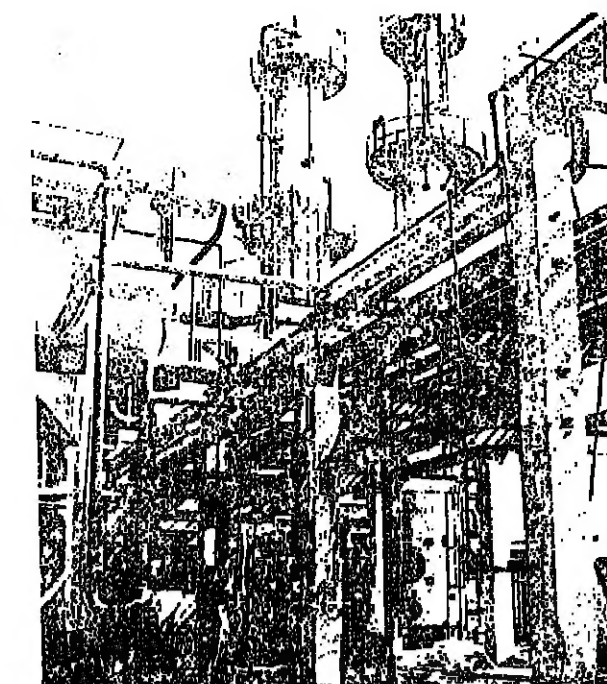


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ON THE COVER: The new oil refinery at Ashdod, to be inaugurated tomorrow. It got the majority of its financing from the Israel Corporation, a body created by the 1968 Economic Conference. (Hani)



Yitzhak Ben-Aharon

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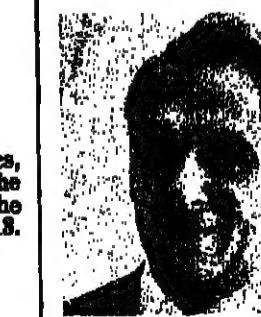
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THE JERUSALEM POST ANNUAL ECONOMIC SUPPLEMENT

PAGE THREE

مركز الأخبار

have a good TIME



DUBEK'S TIME - BY FAR ISRAEL'S BESTSELLING CIGARETTE

Finance Minister Pinhas Sapir, with some of the indicators of increased — and inflationary — consumer spending.



Prosperity for all is the goal, social inequality is part of the price, Finance Minister PINHAS SAPIR tells The Post's David Krivine.

SAPIR, SOCIALISM AND THE BIG SPENDERS

"I'm not a doctrinaire socialist, never was. But if being a socialist means someone who worked all his life to better conditions for the needy, then I'm proud to be called a socialist." Thus Pinhas Sapir, Minister of Finance — in answer to our opening question, about his political affiliations.

"When I was a young man in Warsaw, I belonged to the He-Halutz organization, for four years, but I was non-political. Only I always had this feeling for the needy."

His name at the time was Koslovsky, his birthplace Subalki. He graduated as a schoolmaster from a Teachers' Seminary in Poland's capital. At the age of 22 he came to Palestine, and settled in Kfar Saba. That was 1929. The small three-room cottage remains his home to this day.

We said: "There are rich men in Israel now, who own big assets and make million-pound donations to the charities you advocate. Even though living standards have gone up for the poorest sector, does not that widen the gap?"

"Ownership of big assets scarcely affects other people's living standards. What does matter is excessive spending on luxuries. And believe me, it's not the top industrialists and bankers who create a problem here. After all, they are relatively few in number. The gap that should concern us is between the ordinary working man and the large number of people who belong to what I call the middle-class-plus."

"Who are they?"

Members of the free professions (both salaried and self-employed), business managers, the more prosperous merchants and artisans, the Bohemian set, all those who get good wages and perks — and that includes the rank and file of some respected trade unions. Add also 120,000 recipients of German restitutions. They have pocketed \$2,300m. so far, tax free — and that figure will rise to almost \$4,000m. over the next five years.

"We have altogether about 800,000 families in the country. I would say that over 200,000 of them are middle-class-plus."

(Dan Halperin, the Minister's youthful and quickwitted adviser, had left the room for a moment. Within 15 minutes, a senior official in the Internal Revenue Department produced updated figures for the year 1973, showing that the top one-tenth of the population enjoy incomes of over IL2,300 a month. That category embraces 100,000 breadwinners — and there is often more than one breadwinner per family," the official said. The next tenth of 100,000 earners have incomes exceeding IL1,750 a month.)

"What can one say about over-lavish consumption in this class?"

"If they spent less, we would be able to increase investment and export more. The labour force devotes some of their precious time to making luxuries for such customers."

"What is the remedy?"

"I am in favour of raising up those below. I don't bother about those above." Using a strangely poetic image, he added reflectively: "I weep at people who may

die, not about people who will live."

"But what about wealthy foreigners who build swimming-pools for their 'second home in Israel' at Herakya and Oesareat?"

"I worry about swimming-pools in the development areas."

"In that case how do you visualize the future? What will Israel be like 25 years from now?"

"Twenty-five years from now, I estimate that 50 or 60 per cent of the population will be in the middle-class-plus. And the rest will live at a standard equal to the level enjoyed in the middle-class-plus today."

Sapir is a pragmatic man, who sees the extraordinary opportunities for economic growth offered by Israel's unique access to sources of capital and technology. Some politicians cherish the dogma of equality, even at the expense of living standards. Sapir is not of their number.

"The Communist countries today offer a bleak existence for most of the population, with a small proportion, perhaps 10 per cent, living better." He can tolerate inequality, provided it brings prosperity for everybody, including the underdog.

Nothing is completely white or black. "You see," he explains, "in everything positive there is something negative. For all good things, there is a price to pay." The free-market system of rewarding initiative, skill and hard work generates dynamic growth, but throws up social inequalities as a by-product. Mr. Sapir's preoccupation is to see that benefits accrue also to those outside

the magic circle of financial success.

"What about the exaggerated wage claims, the labour disputes and strikes?"

"I told you there is a price to be paid for everything. Wage conflicts are the price we have to pay for the advantages of full employment."

"But doesn't such a quarrel some system bother you?"

"No, it's normal — all over the world. People want to improve themselves, the pressure is understandable. Only the manner of it nowadays is not altogether to my liking."

It is no secret that the failure of the Histadrut to make its members abide by the "frame-work agreement" did not win Sapir's approval. And he has no time for those who deny flatly that wage increases of 30 or 40 per cent have any effect on the cost of living.

There is a price for everything, including wage inflation. Our roads are overcrowded, our telephone network is overcharged. His warning: "It will get worse, not better." Each increment of additional resources can go either to consumption or to extending the infra-structure, not to both.

Remains optimistic

Yet he stays optimistic, because he has set his sights on economic growth. In the long run that is the only way to provide at least something for everybody — for consumption, defence, infra-structure, the absorption of immigrants.

Though bull-like and intimidating on a public platform, Sapir

is unaffected and good-humoured in private converse. He is tough with those who are themselves tough. We saw his formidable personality at work when one of the Government's most relentless and articulate critics interrupted him aggressively in a Knesset committee. Lowering his head, Sapir bellowed, without any trimmings: "Be quiet!" And the man, though famous for browbeating his antagonists, was speechless this time.

On the other hand we have never seen Sapir treat a small person with discourtesy. Years ago, a relatively junior official who had worked with Sapir found himself under another boss. We asked him about his new superior. He hemmed and hawed, then blurted: "He hasn't got Sapir's Jewish heart — that's the long and the short of it."

We asked the Minister: "What are the most unforgettable moments of your life?"

There was the Six Day War. He did not mention details, but we recall his stupendous drive to raise funds among Jews abroad. While on his travels the news came that his son Amos had been severely wounded in the fighting. He was on the transoceanic phone to his wife Shoshana (now no longer alive). "How bad is he? Should I come home?" She told him to stay where he was needed, and to finish his job — which he did.

He calls to mind dramatic moments that made a particular impact. One was in April 1967, before the June war, when he

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(Continued from page 7)

travelled to Bucharest and concluded Israel's first commercial agreement with the Rumanian Government.

"On the Shabbat I went to Rabbi Rosen's synagogue. There was only place for a few hundred, but 1,000 Jews turned up. It was raining that day. Most of them stood in the open throughout the service, in the pouring rain. That occasion I shall never forget.

"The second moment I want to recall is the closing ceremony at the first Economic Conference in

1968." It was not long after the Six Day War, and the first time that a large gathering of top businessmen had met — in the united city of Jerusalem — to help Israel's economy. The proceedings ended with the singing of a children's choir. And as their voices piped out "Jerusalem the Golden," an indescribable emotion swept over the entire hall. Among the assembled tycoons, there was not a dry eye.

"How do you see the Economic Conference?"

"We have an immense job to

do in the field of development, and we cannot do it alone. By the end of the present decade, we shall be handling a foreign trade volume (imports and exports together) of 11 to 12 billion dollars a year. If you exclude South Africa at one end, and Japan at the other (also, I suppose, China), that will be the biggest trading figure for any country in Afro-Asia.

"To achieve such dimensions, we depend on the Economic Conference. Israel contains backward sectors which need modernizing. I refer in particular to the con-

struction industry. It is probable that the abundance of unskilled Arab labour from the administered areas weakened pressures to mechanization and industrialization in the building trade. We have great hopes that the Building Industries Committee, under Jack Wyler, will help bring sophisticated technology into this lagged branch.

"I want to say something about the Manufacturers Association, which is now celebrating its 50th anniversary. I appreciate what they do, and wish them well for the future. We don't have to

agree always, but the association is a creative force — and sometimes acts as a healthy brake in the field of labour relations.

"There is not only the conflict of wage bargaining. More striking still is the cooperation between all three sectors in Israel — government, employers and Histadrut. The Economic Conference has revealed that the three sides are keen to set up partnerships with each other. That shows how relations between them are basically constructive," he concluded.

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THERE were doubts, among those preparing the Economic Conference and also expressed in the press, as to whether it was appropriate to call such a Conference at this time.

It is a time when events of crucial international importance are taking place, a time of severe inflationary trends within the economy at home, a time in which social unrest is beginning to find more active expression.

Compared to 1968 and the first Economic Conference it is also a time when the form overseas investments should take and the very necessity for this foreign currency are questions which must be seen in a new light.

It is perhaps difficult today to recall the situation of the State's foreign currency coffers in those days. Not only economists but those actually engaged in the transactions were wondering how we would be able to budget imports and the other needs of the State which had to be acquired in foreign currency.

Now, there is prosperity — at least outwardly. Debts have of course increased, but then the next generation will repay them. We have learnt from economists — contrary to everything we learnt when we were children — that one must not save; that it's good to be in debt. One gets good money and returns cheap money, because the value of the money drops and the tempo of the decline is for ever escalating.

And, if we are wise in our use of the money we are receiving now, then in 15-20 years we will return a value of 30-40 per cent less. If we capitalize the money, then with the interest differentials and the drop in value, our children will find themselves repaying less than we had borrowed. So one way or another, we have the feeling of full coffers.

There are those who claim that foreign investments have an inflationary effect. The foreign currency is turned into Pounds and the Pounds are poured into the economy. They say the Government, on the one hand, seeks ways of mopping-up money, but on the other, primes the inflationary pump.

The Government, aware of the situation and sensitive to the criticism, has asked itself on many an occasion whether the Conference should be held? Should it be postponed?

An additional issue has been added recently; yet another investment company is being established.

Every Economic Conference has its investment company. True, everything grows. A share in the Israel Corporation is \$100,000; in the new company, \$1 million; the adventitious. A certain picture emerges.

But when a potential investor comes here he is able to see and feel the creative spirit and ferment which exists here. This can only heighten his faith in the economy and increase his willingness to invest.

Despite the criticism and doubts my view has been that the Economic Conference should take place and that there is room for an additional investment company. Both are instruments. Whatever arguments there are should not be over instruments, but over content.

Willingness to invest

There is great willingness to invest money in Israel, even with all its problems, and this willingness is growing among Jews and non-Jews. Yet, because of the difficulties, because of the lack of clarity as to the direction development will take, there must be at least some emotional appeal. It is not enough that the pocket is willing, the atmosphere too must be right.

I think there is no better opportunity than an international conference — where businessmen from all over the world meet — to prove the error of the theory that all economics is hard materialism. There is an element of status, an element of belonging, an element of profit and there is an element of optimism and these things heighten the willingness. Moreover, seeing is not the

same as hearing. One hears about Israel, usually through the media. It is in the nature of things that these media describe the unusual, the adventitious. A certain picture emerges.

But when a potential investor comes here he is able to see and feel the creative spirit and ferment which exists here. This can only heighten his faith in the economy and increase his willingness to invest.

3 or 4 companies

With regard to the new investment company, my view is that one new company is not enough. I think we need three or four. In a small economy, it is not good that the existing companies grow beyond their natural propensities, both as regards the ability of the circles from which they draw their resources and as regards managerial ability.

Nor should this be dismissed lightly, for there must be a limit to what management of a company can control. In management, one must not only deal in conceptions, one must also look to the details. Thus we should not build our towers of Babel too high, lest the managers lose control over the details.

There are political forces and imperatives which have a strong influence on economic life here and the large companies are, at least potentially, strong political instruments. This is another

reason to avoid over-cartellisation of economic strength in a small number of companies.

Yet for the Conference to be a genuine success there must be clarity and attention to content and detail. The first problem and one of the most important facing the foreign investor is: that if he invests foreign currency in assets which are valued in Israeli Pounds, he can find himself in a position where he gains a return every year, but with every devaluation loses part of his capital.

This is not so strongly felt, perhaps, by an individual investor who does not keep a balance sheet and does not have to make a daily calculation of his balance sheet. But public companies and public investors who keep their books abroad and whose investment in Israel must appear in their books must, under the regulations of various countries, show their assets in their balance sheets in the currency in which they invested.

As these assets in Israel are in Pounds and taxes are in Pounds such companies can find themselves obliged to show a capital loss, and, in specific instances, as paying tax not on income and not on capital gain but on the capital itself in terms of the foreign currency which they invested.

Two examples will make this point clear. There is a Canadian investment company which, under the law, is allowed to distribute

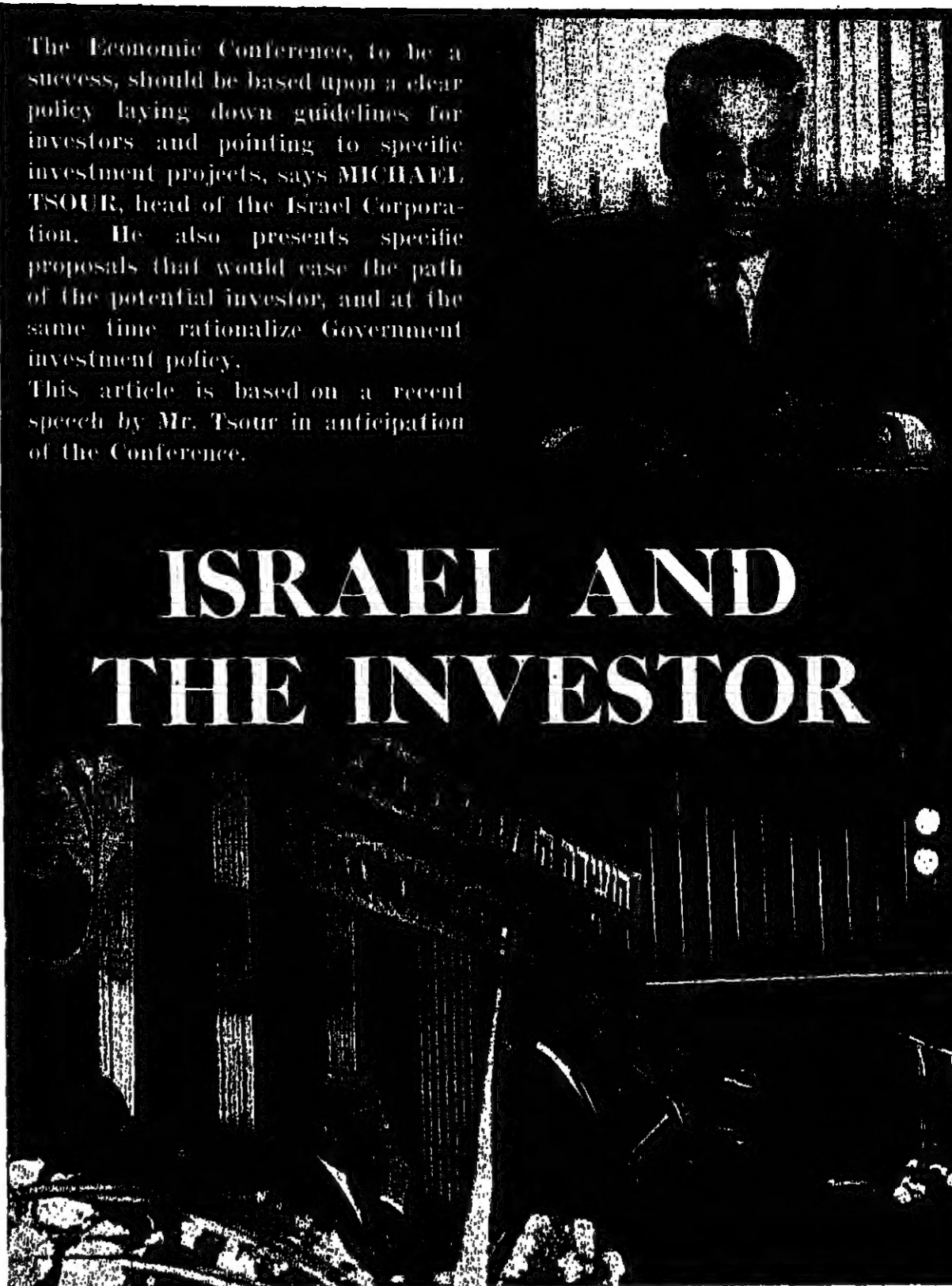
dividends only out of profits, not out of capital. As it must calculate its investment in Israel according to the rate of exchange of the Pound to the Canadian Dollar on the day of the balance sheet, it shows a capital loss from the day of devaluation. It must then use all the dividends it receives to make up the deficit in capital, so that it can show in its Canadian balance sheet the capital which it had, seemingly, lost. It cannot pay dividends in spite of the fact that it gained a profit.

In another case a foreign investor set up a company here which bought a ship for \$1 million at the beginning of 1971. Since the company is an Israeli company and its assets are in Israeli Pounds, the ship appeared on its books at a value of IL3.5 million (\$1 = IL3.50). In August 1971 the Pound was devalued to \$1 = IL4.2. The company sold the ship in December 1971 for \$1 million. The investor made neither a profit nor a loss.

Illusory gain

But under the income tax law today, the company made a profit of IL700,000 (the difference between IL3.5 million and IL4.2 million) and the investor must pay a capital gains tax on IL700,000 which he had "gained". In fact, he paid tax not on a capital gain but on the capital itself.

Someone who invests in a plot of land or does not keep books



Photos: Top, Michael Tsour. Bottom: The late Prime Minister Levi Eshkol addresses the opening session of the 1968 Economic Conference, as Ministers Sapir and Allon look on.

ISRAEL AND THE INVESTOR

is not so affected. But public companies, those who invest in productive assets which help the country's development, are.

The paradoxical result is that the more worthwhile the investment to the economy, the more risky it is to the investor.

There is a scheme whereby certain loans from abroad can be insured with the Ministry of Finance against devaluation, for a premium. In return for the premium, the Ministry of Finance takes upon itself to guarantee the rate of exchange, that is to absorb any devaluation of the Pound.

But this is a dubious system. If an investor wants to put his capital into an investment which is useful to the economy, he should know the possibilities and the risks. He should not place these risks onto the Israeli public even though that public wants investments. For then the citizen is dependent on administrative decision. Each and every permit and approval requires an administrative decision.

Rather, I propose that the foreign investor should be able to insure himself, that is out of his profits in Israel he should establish a reserve — which should be a recognised expense — calculated actuarially, to the extent that it is possible to make an actuarial calculation on devaluation (as devaluation is not a process but an administrative decision), based on the experience of the past and forecasts for the future.

The Ministry of Finance makes an actuarial calculation and determines the premium in accordance with some rate, based on its evaluation of the risks. The foreign investor should be able to ensure his own linked insurance, on his investment and on his loans, through his own reserves, out of which he would compensate himself for differences in exchange rates in the event of devaluation.

Form of 'insurance'

There are other means. This is only one. I am convinced that if we want serious foreign investments from large companies, from public companies and not speculation on currency or property, the foreign investor must be allowed to insure himself against devaluation, either by the method I have proposed or by any other method which might be found satisfactory.

For we must not forget that devaluation is an adjunct of the Israeli economy. It will remain so for many years to come and for a simple reason.

If we have to build a State, ingather the exiles, close social gaps, and in addition, absorb immigration and withstand the costs of security, then nothing can hold inflation in Israel to a slower pace than inflation abroad, or even to the same pace.

We should not be embarrassed about this. We must see it as a fixed economic phenomenon, which permanently accompanies us and must therefore be taken into account. It must also be taken into account from the investor's point of view.

If devaluation is one major problem that should be clarified, investment incentives is another. We have a Law to Encourage Capital Investment which lays down that an approved enterprise is not liable for tax for the first five years. I believe that this law is obsolete.

When a factory to produce plastics was set up some 20 years ago, there was no other such plant here. The investor and his factory enjoyed total protection on his "locally made goods." He fixed the price at will. Those were good years. The company showed profits very quickly. Late competitors came and set up other factories and complained at the lack of protective tariffs. And the profits were never as great as in those first few years.

Today, we are dealing with enterprises and investments of a different volume. Setting up a

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Israel and the Investor

(Continued from page 9)

chemical enterprise today, or a factory for heavy equipment or other industries that we talk about and need, involves a running-in period, both technically and economically, of between three to five years.

A situation is thus created where a slight profit is exempt from tax, but later, just as the plant is beginning to show real profit, it finds itself at the end of its period of benefits. So expansion becomes the order of the day — a "mixed enterprise," a "recognized enterprise," an "approved enterprise" and a host of accountants, book-keepers, lawyers and negotiations with Government offices. This is neither attractive, nor worthwhile.

If we were to make a weighted average of how much tax is in fact collected from the old-established industries and approved or partially approved enterprises and were to set this (98% or 42% or 43%) as the standard for a unified tax for all, we would have a moral revolution in Israel from the point of view of good will, feasibility and incentive.

For large enterprises, and for heavy industry, the Law to Encourage Capital Investment is an inducement, but not a solution. In the end, the industrialist asks himself: what will happen five years from now? I shall be in an impossible tax bracket. Why bother? So, naturally, he tries to operate on loans and not on investment, as loans can be repaid. He is pressed to get his money back quickly and to distribute dividends in the first few years, when the plant in fact needs the money to increase its capital.

In my view this entire process is obsolete and should be changed. There are two more questions, which are actually one. When someone is about to invest in industry today, and asks himself what he can expect from the tax point of view, protective tariffs, exchange rates, premiums, the answer today is: nothing. For we are about to go into the Common Market and we are about to reduce protective customs duties.

We do not know what will happen when we go into the Common Market, or how the Government will protect the exporter against internal inflation, which is much more rapid than inflation abroad. Therefore there is indecision as to what to produce and how. Nor does the manufacturer know what wages will be at the end of the year, and to what extent he will be compensated for such rises. These risks do not make the established manufacturer shut up shop, but they make it very difficult to persuade a new investor to set up an industry.

At the time of the devaluation in 1962, I suggested to the then Minister of Finance, Levi Eshkol, to link the exchange rate to the cost-of-living index — usually an index of inflation in Israel — minus the rate of inflation abroad. Each time there would be a rise in the cost-of-living allowance, the rate of exchange would then be opened and not surreptitiously changed. We would then avoid these terrible fluctuations, and not have to devalue whenever there is a steep rise.

Just as there is a cost-of-living allowance there would be a cost-of-exchange-rate allowance, thus making things run much more smoothly.

If the Israel Pound could be kept free of devaluation for the next 20 years, this proposal would not be a good one. But if the rate changes in any case, and it usually changes every four or five years, why shouldn't it be done systematically? Then we would all know where we are. The people of Israel would know that if there is an increase in the cost-of-living allowance, there will be an automatic rise in the cost of imports. The exporter would know

that if there is a rise in the inflationary process in Israel, he has the automatic protection of a higher rate of exchange and would not need to demand a subsidy, premium or incentive each time.

I have also suggested that we reduce the percentage of loans we grant, and demand more capital investment. To compensate the investor (as capital funds are more expensive than loans) we would reduce the percentage of interest on the reduced amounts of the loans. So if today interest is subsidized, this subsidy would not cost the economy more. Such a scheme would attract capital and force people here and abroad to invest more of their own capital. It would absorb more capital and be more anti-inflationary.

Why do I say this? Because I believe that the biggest problem for the foreign investor in Israel is to find suitable projects for his investment.

Perhaps we ourselves have not realized that today there is more willingness to invest than there are genuine possibilities for investment. Buy that I mean competitive, economically-based, investment possibilities.

Perhaps someone will argue that if this is so who needs more? The country is already full of investments — some two billion dollars a year. It has also been claimed that the Government cannot take on itself the responsibility for telling an investor what he should invest in? For, if he fails, he will blame the Government.

We did this once in 1961. The Ministry of Commerce and Industry had a special unit which drew up projects. Thirteen out of the 14 projects that were prepared were established.

In fact, I cannot recall one serious economic project in the country which was proposed but not realized for lack of an investor from Israel or abroad. Where there is an economically viable project an investor can always be found. The State does not take on the responsibility. It says: "This is what seems possible to us. It does not take on itself any greater responsibility than if it says: 'Invest a million dollars in the Israel Corporation, or invest a million dollars in the company from Germany.'"

In my opinion, creating the instruments for raising investment capital without preparing the projects for investment is a loss of opportunity and a loss for the economy. There are local investment opportunities in Israel, but in large part they don't require, or don't want, foreign investors. We are not talking about \$100,000 but about millions.

And I am quite sure that, if we have the projects, we can find millions of dollars for investment.

I would like to add a final point about which I feel we are not sufficiently aware. In Israel, we give benefits to investment capital. Many European countries today grant tax benefits on the export of capital. We should therefore look for projects which give investors the possibility of enjoying these tax benefits in their own countries. They are better able to give up tax than we, particularly as the tax-basis (and we claim that the tax-basis must be widened) is narrowed even more by the grants we give.

I believe, and would risk saying that I know, that we could find not tens of millions but hundreds of millions of dollars of investment capital if there were suitable projects and especially if these were based on the possibility of enjoying the tax benefits in those countries exporting the money. This is more important for us, provided that we know where the money is going and that it will be of benefit to the economy now and in the long-run.

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SAM ROTHBERG, Israel Bonds General Chairman, discusses how that organization helped change Israel's economic image.

A SPECIAL ROLE

IN the perspective of its first twenty-five years of independence, the drama of Israel's growth is truly one of the wonders of the century. No single agency can claim major responsibility comparable to the efforts of the people of Israel themselves.

Yet from the point of view of the economy, the Israel Bond programme has had a special role, particularly since it relates so directly to the State and its people.

The Bond drive itself was a product of statehood. The founding of the State endowed it with the governmental authority to borrow money in the international community.

Looking back to the days right after the War of Liberation when a climate of crisis quickly blotted out the jubilation of May 1948, we recall that the governmental power to borrow money was not backed up by any visible measure of financial confidence.

In those days when the DP camps in Europe were emptying out into tent cities in Israel, any mention of investment was met with raised eyebrows and universal scepticism.

Bankers' language

The world banking community, which is so well represented in this year's Economic Conference, could not be persuaded in 1950 to lend money to a country whose economy was being strangled by waves of homeless and jobless refugees from Europe and North Africa.

Bankers do not speak the language of need. Therefore, the State of Israel could only turn to Jews in the Diaspora to fill the gap and save its sinking economy.

Whatever else the Israel Bond programme has achieved with the \$2.2 billion it has channelled into the Development Budget, it is important to remember that until the first Bond issue was floated in the United States in May 1951, Israel's efforts to attract private investment met with almost completely negative results.

It is easy enough today to speak of economic miracles. But in the early days of the Israel Bond campaign, establishing even a small measure of confidence in the country's economic future was a long and hard struggle. In the final analysis it was the response of Jews demonstrating their faith in Israel on a spiritual and emotional basis which laid the groundwork for the emergence of confidence in its economic potential on the part of private investors and the business world in general.

That was the beginning of the slow process of changing the image of Israel from a land in deep economic and human distress to a country with great promise for the future. All of us can recall the central role of the word "viable" in the movement for an independent Israel. At the time when the Israel Bond programme was initiated twenty-two years ago there was still a big question mark over whether Israel could have a viable economy. One of the most important ob-

jectives of our campaign was to bring people to recognize what has since been demonstrated so dramatically, that Israel had the capacity to overcome the enormous pressures of mass immigration and a serious lack of natural resources, and that despite all difficulties it could build a stable economy. The role of Israel Bonds in changing the country's image was just as important as the dollars which they provided for its economic development.

Infrastructure built

Little by little as the image improved, the attitude of private investors began to change. It is no secret that in the beginning the great majority of people looked upon Bonds as another form of philanthropy. Very few, including the first and most enthusiastic purchasers of Israel Bonds, were sure that Israel would be able to repay the loan. This feeling, which prevailed for some time, was largely dispelled by the remarkable development of the country's economy which the proceeds of the sale of Bonds helped make possible.

In the order of development, especially in a country of shortages and limited natural resources, Bonds had to come first to pave the way for new industrial and agricultural projects. The establishment of the infrastructure had to come first to set the stage for the entrance of the private investor in industry. In many instances Bonds opened the door to more direct involvement in Israel's economy.

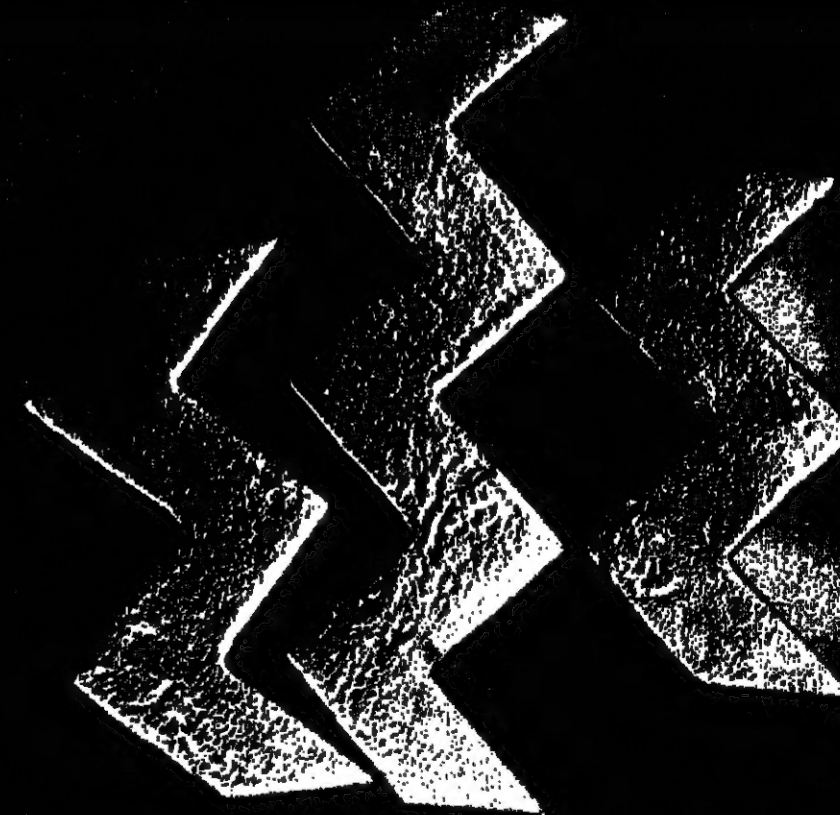
The broad community acceptance of Bonds had its impact on banks and other institutions as well as individuals who were drawn into active participation in the Bond drive. The unblemished record of Bond repayment that was established with the passing of time reinforced Israel's reputation as an excellent credit risk. This helped create new and larger sources of financing for the State.

So, in a certain way, this Economic Conference had its origin in the Jerusalem Conference of 1950 where David Ben-Gurion, Golda Meir, and Eliezer Kaplan proposed the floating of the first overseas Bonds of the State of Israel.

It seems like ages ago that Mr. Ben-Gurion tried to convince Jewish businessmen there was nothing wrong in making a profit in Israel, for, as he explained it, next twenty-five years.

establishment of a successful business would be profitable for Israel as well. That day has gone and we know that the American or European investor can always count on a very warm welcome here.

It also seems like a long time since Golda Meir said that the only security Israel could offer for the Bonds was its children. Today, a generation later, those same children have become the backbone of the nation's defence and progress. I may be unorthodox to speak of children in terms of investment or banking, yet we know that in Israel's case no better offer could have been made and no greater guarantee could have been provided. If the next generation does as well as this one, we can expect Israel to achieve an even greater measure of progress and success in the next twenty-five years.



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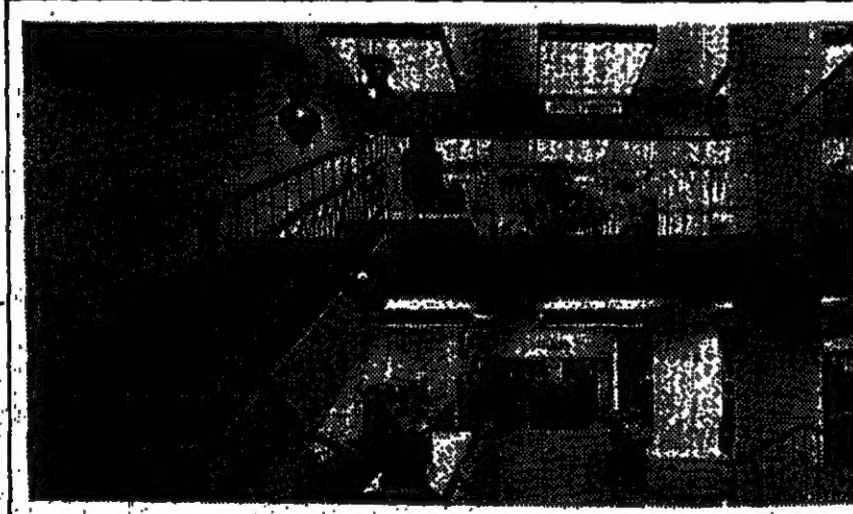
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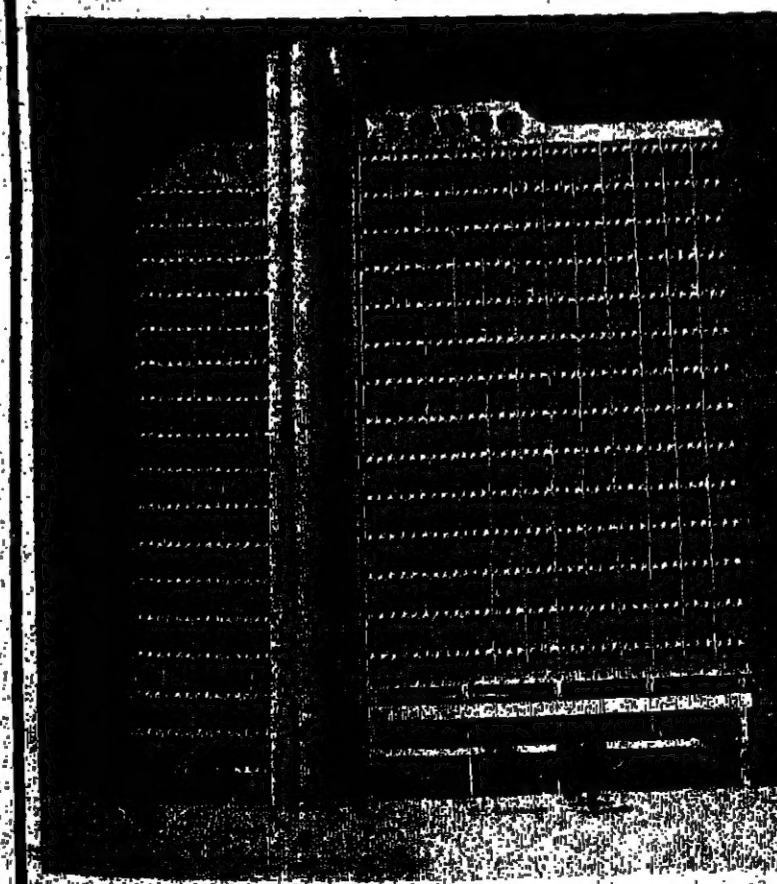
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Mark Mosevics, president of the Manufacturers' Association, which is celebrating its 50th anniversary.

Profit isn't a dirty word



Model of the Association's new high-rise office building, soon to rise on the Tel Aviv seashore.

THE President of the Manufacturers' Association, Mr. Mark Mosevics, has great hopes for the Economic Conference and the prospects it holds out for expanding industrial development in this country.

He says: "It is obviously a major event. For it is a gathering of prominent businessmen from all over the world including some very big names and the heads of multinational corporations. They are afforded the opportunity of meeting their Israeli counterparts which to my mind is most important. Admittedly no one expects deals to be signed on the spot but such a gathering creates a first-class opportunity for making contacts."

Mr. Mosevics considers the public relations aspect of the Conference to be of major importance too, "for it puts Israel in the focus of the international business community and shows what we are doing and highlights our potential."

He believes the Conference's message is that businessmen have been invited to look into the business prospects of Israel, not because of Zionist interest nor out of philanthropy but to make money here.

Our interview took place in his first floor Association headquarters on Montefiore Street under the shadow of the Migdal Shalom skyscraper. Mr. Mosevics has brought a real change to the Association, impressing some of his own elegance onto its hitherto 50-year-old musty image.

During his term of office, he has forged the Coordinating Committee of employers' organizations into a powerful instrument and has sufficient presence to stand up to Histadrut Secretary-General Yitzhak Ben-Aharon, his counterpart in labour relations.

Born in Russia in 1920, he moved with his family to Riga where his father formed the original partnership in manufacturing chocolate with the Fromchenko family, which evolved, after skya in 1940, into Elite Ltd., today the main Israeli producer of chocolate, sweets and instant coffee. His impeccable English reflects his education at Dulwich College in London and Jesus College, Cambridge, where he read chemistry.

New building

On his office wall hangs the blueprint of the new high-rise Association head offices soon to go up on the Manahya seashore near the new Laromne Hotel, midway between Tel Aviv and Jaffa. This gleaming ultra-modern tower represents the revolution during Mr. Mosevics' term in the Association — now marking its golden jubilee — as the representative body of private industry in Israel.

Discussing the changes that have taken place, he advises a look backwards to ten years ago when industry was underdeveloped and totally dependent on Government capital. Today it produces IL25,000 million worth of goods, and exports to the tune of \$1,500m. a year. Industrialists have now managed to secure reserves and introduced new technology, making Israeli products competitive on world markets.

The real turning point, he says, came after the Six-Day War, with the infusion of tremendous resources into industry through huge defence orders. The Association played its part in explaining to members that "It's not good enough to run to Jerusalem to get government permits, for if you want to succeed as an industrialist you have to manufacture a product that can compete favourably in quality and price abroad."

What did this involve? "It means good management, and today the owners are no longer of necessity the same as management. It means good labour relations with both management and workers regarding themselves as partners and not

The years after the Six Day War have marked the take-off period of Israel industry, says MARK MOSEVICS, President of the Manufacturers' Association, in this interview with MARK SEGAL.

as opponents, and above all it means profitability.

"Making a profit used to be a dirty word here. I was the first to tell Pinhas Sapir that I was in business to make money. After all, without making a profit one cannot build up industry."

He stressed that his organization's viewpoint is that "without profits, there can be no reserves, without reserves there can be no independence of Government." He acknowledges that even in the

U.S., the fortress of private enterprise, there is increasing Government intervention in the economy.

In response to a question concerning the image of Israel industrialists lining up for Government aid, Mr. Mosevics declared with emphasis: "It is of the utmost importance that industry should not go to the Government for handouts. They have to go public and float stock issues and get money through the Stock Exchange."

When I wondered about his own company, Elite Ltd., which is one of the most famous examples of the Israeli family firm, Mr. Mosevics smiled quietly and said: "Why, don't you know we are going public in a fortnight's time?"

He added that the Government does not make it easier by practically controlling the money market. He noted how difficult it was to compete with the very easy terms offered by the Government bond issues with 20 per cent interest.

Asked whether industry could really develop properly under the

(Continued on page 14)

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Mosevics: Profit isn't a dirty word

(Continued from page 13)

present tax system, the Manufacturers Association President said the entire tax system is "lopsided."

"But I am glad to see that Finance Minister Pinhas Sapir is well aware of this. He wants to change it and increase incentives and has reduced the marginal income tax rate. Sapir is simplifying things that I know, but we have to change the whole tax system."

Mr. Mosevics favours the introduction of the Value-Added Tax, which together with a reduction in direct income tax would offer bigger incentives all round, with the V.A.T. providing the Government with the missing revenues. Does he consider Israel sufficiently attractive to foreign investors?

Israel's attractions

"Most certainly, Israel is as attractive to foreign investors as any other country in the world. The rate of inflation in Israel is not much greater than in Europe. We have a first-class reservoir of skilled manpower. Also there exists the possibility of association with the European Economic Community which can be especially attractive to the American investor."

"I say that a lot of money can be made in Israel with the right

projects. I would advise our friends from abroad to take Israel as partners in business ventures, for they know local conditions sufficiently well to help the newcomer to this field find his way. Moreover we here at the Manufacturers Association have a special desk for foreign investors and we are at their service with all the resources at our disposal."

Here he pointed out: "In the old days only Government officials were available to meet the potential investor. Since they were not businessmen the result was that the investor lost money. I can say with all sincerity that we at the Association are not in the least afraid of competition, to the contrary we welcome new industry. Above all we need foreign investments and know-how to help make our industry grow."

Indeed the 50th Anniversary celebrations of the Manufacturers Association, coinciding with the Economic Conference, will have as their guest of honour — one of the biggest names in international industry — Henry Ford II. His address will be devoted to "the role of private enterprise in industry."

Taking another track, I sought Mr. Mosevics' reaction to the remark of Histadrut Secretary-General Yitzhak Ben-Aharon that "in Israel the way to make money is not by being a factory worker

nor by being an industrialist but by having the right contacts in the Finance Ministry."

Mr. Mosevics seemed rather amused but commented: "It is true that all over the world you cannot get anywhere without the right contacts. But it is quite untrue to say you cannot succeed without contacts at the Finance Ministry. To speak quite frankly I don't remember the last time we at Elita had dealings with the Finance Ministry, if anything our dealings are with the Ministry of Commerce and Industry..."

Labour relations

Turning to the state of labour relations, I sought his reaction to the charges levelled recently by Commerce and Industry Minister Haim Bar-Lev against Mr. Ben-Aharon's personal responsibility for unrest in the labour field.

Mr. Mosevics replied: "I think that despite Ben-Aharon's labour relations are pretty good in industry. But things are deteriorating in the public sector. Look, I don't want to accuse one single person, but if you keep on inciting people all the time, then there is an accumulation of unrest that sparks off trouble. What I can say is that all this does not contribute towards the welfare of our economy nor does it benefit the workers."

Taking a wider tack, he said:

"Israel has one of the narrowest social gaps in the world. It's silly to talk about millionaires... Why, the living standards of the entire population are continuously on the rise. True, a certain percentage of the population is not doing well, but the causes are social and not economic. There exists a generation gap which can be bridged by a long-term re-education campaign, but no speeches and no demagoguery will close it. It takes time. Cheap demagoguery does not produce any results at all!"

Mr. Mosevics is not unduly alarmed by inflationary trends.

"I have just come back from a trip through Europe and the U.S. and besides business affairs I studied the problems of inflation. I reached certain conclusions. We have to take into account given Israeli conditions — heavy defence spending; a shortage of labour; and the huge inflow of money from German restitutions. I would say that our inflation is not out of proportion to that prevailing in the U.K., Switzerland and the U.S. Above all there is no need for people to get hysterical! When the value of one's money erodes it is very bad, agreed, but it is not a catastrophe!"

"Of course, there is the orthodox way to fight inflation, but that would involve using brutal means which would be most un-

popular — imposing new taxes or other means of mopping up surplus purchasing power which could be expected to slow down the economy and cause unemployment."

Political risks

"No Government in the Western world will adopt such methods that produce such results, because of the political implications. As long as our leaders are unprepared to take drastic measures we will have to simply jog along, and to tell you the truth we are not doing so badly at that..."

To what extent does he consider Israeli industry ready for the great challenge of the EEC up with the Common Market, involving not only selling goods to Europe but opening up Israel to their huge production?

"I consider this a truly fateful decision. I hope we can get the kind of association with the EEC ensuring equality in duty tariffs with all countries in the Common Market, plus a reasonable span of time to lower our tariffs, say ten years, just like Greece and Turkey. We are most certainly not ready right now to remove our protective tariffs from one day to the next, for it would destroy Israeli industry. But given a gradual let-down over the next ten years we can most certainly cope."



THE SEVENTH STAGE OF DEVELOPMENT

Manufacturers Association Deputy President AVRAHAM BUMA SHAVIT discusses the growth of Israeli industry with MACABEE DEAN

ISRAEL'S industrial development has gone through six distinct phases from the first founding steps some 70 years ago to today's production of highly sophisticated electronic items. Now it is entering its seventh phase; consolidation of all its past gains while maintaining the idea that Israel's entire future depends on concentrating more and more on industrialization.

This is the view of Avraham ("Buma") Shavit, Deputy President of the Manufacturers Association.

"They talk a lot about the miracle of Japanese industrialization, of a country pulling and pushing itself into the modern industrial age from a feudal society; they talk a lot about the miracle of German economic recovery after the devastation of World War II; well, I say that the industrialization in Israel in the last few years is also a miracle, and one which is just as great, if not greater, than in Japan and Germany."

The early history of local industry — really a collection of workshops with a few employees — has been lost in the currents of time, he says, "for few of those who laid the basis for the present-day ever kept records. As a matter of fact, they had little reason to — they didn't know they were making history."

About the turn of the century a few more workshops sprang up. They made such things as textiles, soap, oil, and pumps for the newly founded agriculture settlements.

"But these industrialists — if you want to dignify them by this name — were mainly petty merchants turned workers, and they received help from the Templars who set up workshops, even foundries, in this country."

The second period began roughly in 1923 when the Manufacturers Association, now celebrating its 50th year, was founded.

British policy

"The British Mandate was interested in integrating this country into the British Empire. The main idea was that manufactured products should be purchased from England; this country was to supply food, especially citrus, to the English market."

Yet despite this subtle effort to throttle industrial development, several workshops, some even of semi-factory proportions, emerged and were engaged in producing items that were bulky and in which there was little profit, such as all sorts of bricks, building accessories, and some basic food processing items.

In the third period, which lasted from the beginning of World War II in 1939 until the emergence of Israel as an independent State in 1948, there was an about-face; almost a dramatic one, says Mr. Shavit. England was at war and had to divert production to the instruments of war. Little time and material was left over for consumer goods. Secondly, the British army, stationed in the Near East, demanded an ever increasing quantity of manufactured goods, for it could

not overload its already strained shipping lines.

So the British "eased" the manufacturing restrictions. The result: the Jewish workshop owners moved swiftly into the field, leaving the Arabs trailing far behind, and began manufacturing a variety of goods, ranging from bottles for light drinks to jerry-cans for petrol, from cloth for clothes to cloth for canvas tents. Moreover, there were some starts in making modern consumer goods, such as radios, electric kettles, toasters and electric irons.

"But simultaneously with the open production encouraged by the British, a new industry sprang up underground: the manufacture of the instruments of war. The Yishuv, years before 1948, saw a war for independence looming in the future, and underground workshops making grenades, Sten guns, and the like, came into existence. At this time, the basis for making Israel's first artillery, the 'Davidka,' took substantial form."

The fourth phase was from 1948 until 1956 when the State, numbering some 600,000 in 1948, had to absorb, and find productive work for, hundreds of thousands of newcomers.

Providing work

"The aim was to build factories, give people work, enable them to establish themselves in the country. If the factories made money, well, this was wonderful; if they didn't, they still permitted workers to live from the fruit of their labours."

Most of these factories lost money, says Mr. Shavit, "nevertheless, whenever we got one functioning successfully, and profitably, a solid-based development town sprang up around it."

"Take Kitan-Dimona, for example. The Kitan textile plant is a hard core around which the entire town took root."

The fifth period lasted from the Sinai Campaign in 1960 through the Six Day War in 1967. Industry was strengthened, standards of production and efficiency were raised, and sophisticated manufactured goods gradually emerged.

The Six Day War marked the beginning of the sixth period. "The French embargo was a great blow. It was aimed at depriving Israel of the tools of survival; instead, the opposite happened. Israel decided to build by itself these tools of survival. And they were mainly sophisticated. We developed great skills of the first magnitude. Today, we can compete successfully on the international market in such items."

The sixth period also saw the "workshop mentality discarded" — all too often unwillingly — for a genuine industrialist outlook. "The manufacturers no longer talked like small workshop owners, they began talking like industrialists with an ever-widening vision."

of men, most of them young and enthusiastic with the greater part of their lives ahead of them, not behind them."

"Moreover, the Manufacturers Association stopped viewing things from a narrow, partisan viewpoint, and began assuming an overall national viewpoint." Mr. Shavit says, noting that it could afford to: 60 per cent of industry in the State is privately owned, and this 60 per cent, although it employs only 30 per cent of the industrial workers, manages to produce 70 per cent of Israel's industrial exports.

As for membership, the Association grew from 600 a few years ago to almost 1,000 today. "But this does not really reflect the growth; a dozen years ago a ket."

member might run a workshop employing half a dozen persons; today, he employs several hundred persons."

Question: What about mistakes along the way?

Answer: "There were plenty." For example, only after the Six Day War, when the Military Industries had to expand at the fastest possible rate, did they begin to sub-contract in quantity. The result was, for example, that a company that had made had auto and bolts for years suddenly had to meet the highest military standards. And what happened? This meticulous exactness in standards became a way of life for this plant in producing for the commercial market."

Had the Military Industries begun subcontracting after the Sinai campaign, the entire face of local industry would have been changed a decade earlier.

But this modernization took place against a larger background that is less conducive, says Mr. Shavit.

"You really can't expect a worker, even the best, to take an aesthetic and efficient view of producing high standard items, calibrated to the finest measurements, if, when he lifts up his head from the lathe, he sees a country where mail delivery is inefficient, telephones function at will, clerks in most offices are impolite, streets are dirty, people dress in a dirty — and I don't mean unstylish — sloppy way, and personal relations are often based on suspicion and not on trust."

Nevertheless, Mr. Shavit ends on an encouraging note. As in the past, these obstacles will also be overcome. "And Israel will continue on the path of industrialization."

"If this country wants to be a modern, Western country, it must look towards industry of the most advanced type. We have the raw materials in Israel, and these raw materials are not huge quantities of natural resources."

"They are imagination, vision, energy, planning, thinking, plus one other important item: money. And if we exploit these raw materials to best advantage — the money will come flooding into Israel from abroad to complete the partnership."

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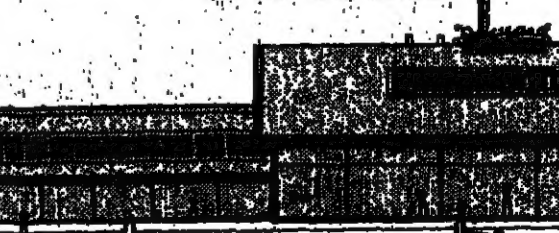
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GIVING BOTH SIDES A GOOD LOOK

Creating a climate of understanding is one of the most important functions of Economic Conferences, PELEG TAMIR, Director-General of the Manufacturers Association, tells MACABEE DEAN.

The Economic Conferences are "two-way" windows.

"They not only give foreign investors a chance to taste the potentials of Israeli industry, managerial strengths and skilled workers, but they also — and perhaps this is the most important of all — they also give the Israeli Authorities a chance to gauge and feel what will attract serious foreign investors to this country."

This is stated by Mr. Peleg Tamir, Director-General of the Manufacturers Association.

Question: And what do the foreign investors want? What will attract them?

"Government incentives are important, but much more important than this is creating an attitude and climate of understanding. And this means one thing: realizing that the 'old fashioned entrepreneur', the man who is willing to risk his capital to build something, who is willing to risk his personal future, is still needed. In fact, he is irreplaceable, and public financing cannot replace him. This type of man wants to see good returns on his investment — if he succeeds."

"Why even China and the USSR are viewing Western capitalistic methods in a more favourable light."

This foreign investor, Mr. Tamir says, brings two other things in addition to his capital: technical know-how and a deep knowledge of the market. These three factors — know-how, market knowledge and money, linked with Israeli managerial skills and an industrious, force of workers, make an excellent and successful team.

Question: But if money always flows into a successful venture, why doesn't Israeli money — and there is certainly a lot floating around — flow into Israeli industry?

"We have a unique situation in Israel, and, I may add, a very dangerous situation, where anything speculative — buying and selling real-estate, for example — brings in a quicker and larger profit. This is not only dangerous, it is unhealthy. But we are working hard to change this situation, and we are succeeding by abolishing controls on industrial prices, trying to

increase export incentives, and trying to strengthen our ties with the Common Market."

But Mr. Tamir feels that much more must be done in Israel to make sure that "investment money flows into productive investments, not into speculation."

As for labour-management relationships, he feels that they are on a firmer basis than ever before. Strikes in industry are few and far between (as compared to the public sector). One reason for this, he believes, is the ever-growing importance of the Manufacturers Association's "Strike Fund." This fund now stands at almost IL4m, and it is hoped that within a few years it will grow to IL30m.

"You can prevent strikes by being strong; and if you are not entangled in disputes, you are free to develop better means of production, to increase efficiency. The end result is greater output — which leads to fatter paychecks."

A striking example of the fund's success is that, though it was set up by industry, more and more non-industrial firms are joining, seeing in the fund a safeguard against wildcat and unauthorized strikes.

Mr. Tamir disagrees with Histadrut Secretary-General Yitzhak Ben-Aharon's proposal for a "five day, 40-hour work week."

"Shorter work weeks are a method, during times of unemployment,



PELEG TAMIR

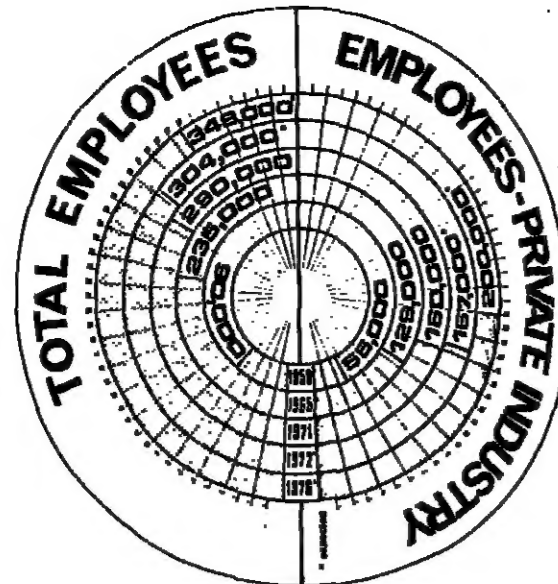
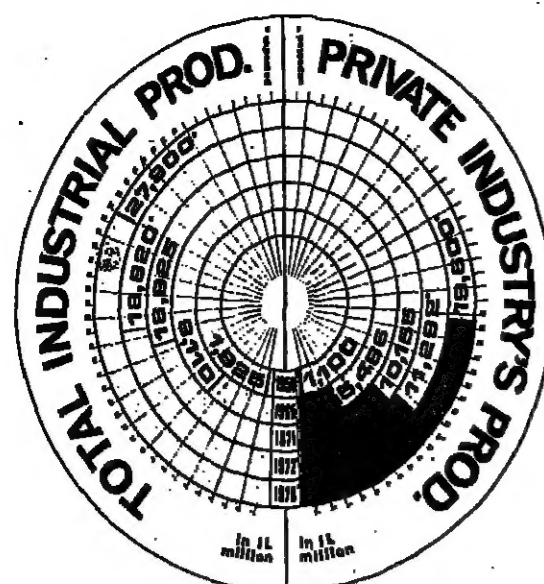
ment, when the authorities make efforts to distribute more equitably the amount of work available. But to introduce such a measure in an 'overheated economy,' where there is a crying need for workers? It will only lead to producing less and spending more."

As for the future, Mr. Tamir thinks that the Association will assume an ever-important leadership role in the country's economy.

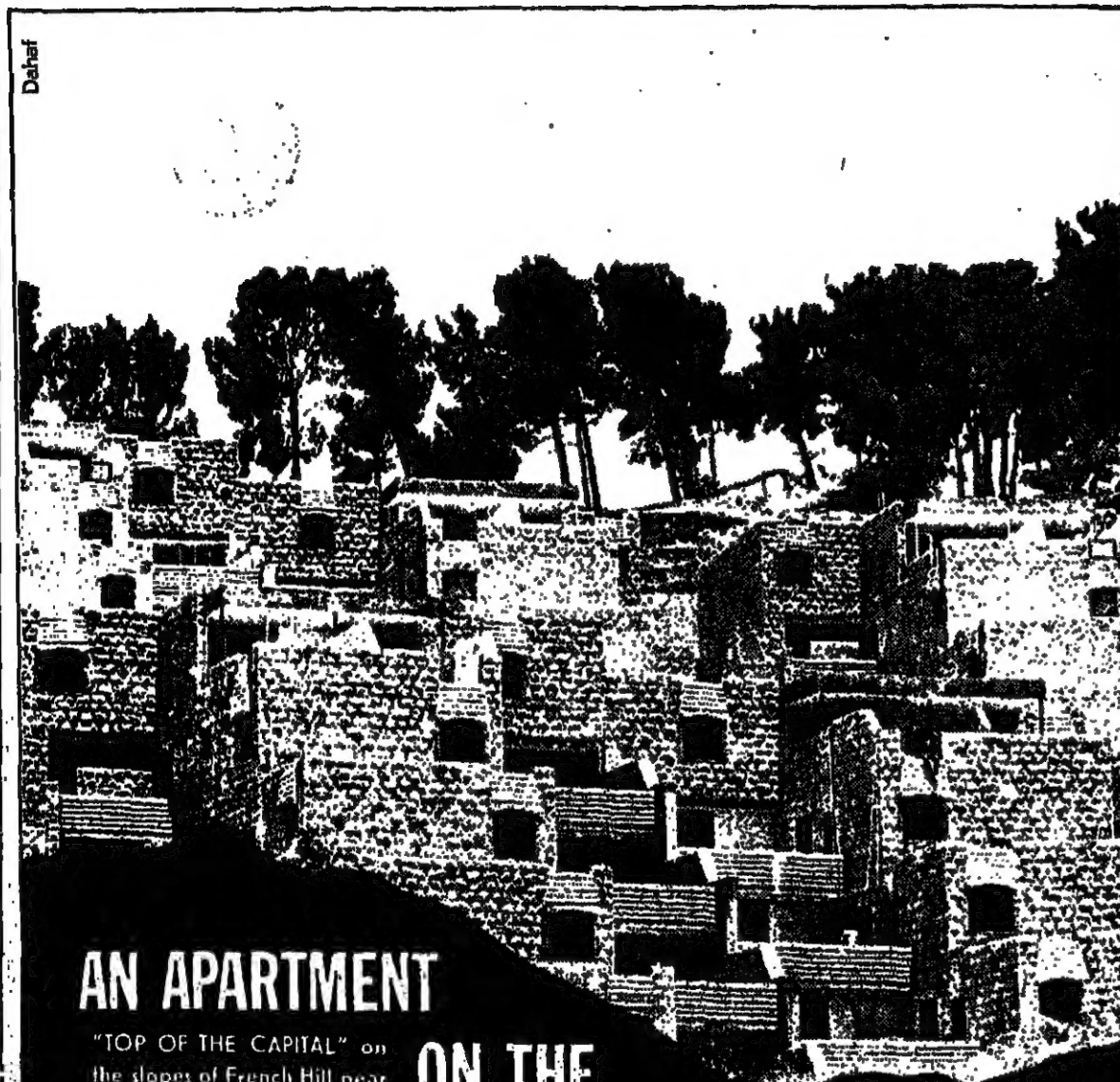
"Today, no important economic decision is taken without consulting the Association — for we are the cornerstones of the Coordinating Committee of the Economic Organizations. We are a highly important angle in the triangle whose other two angles are the Histadrut and the Government."

The Association, he feels, has made rapid strides in the past few years in asserting not only its own growing strength, but also that of the industrial sector. And it aims to continue in this fashion.

"And we will succeed. We employ here in the Association a highly skilled and professional group of people. Each is a valuable expert, for we depend heavily on quality of personnel, not on quantity."



Charts, provided by the Manufacturers Association, show private industry's share of Israel's total industrial production, and employment figures, and the growth of both.



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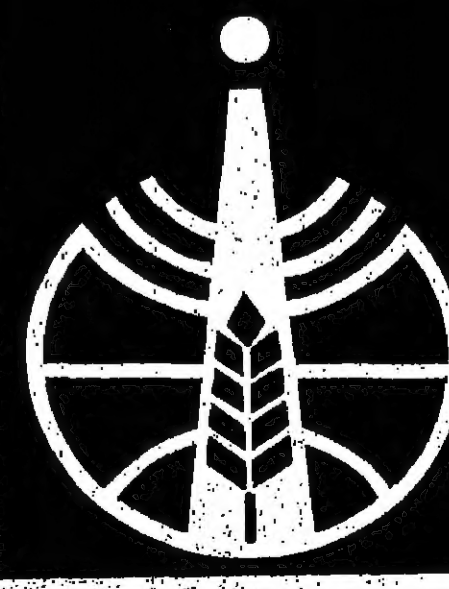
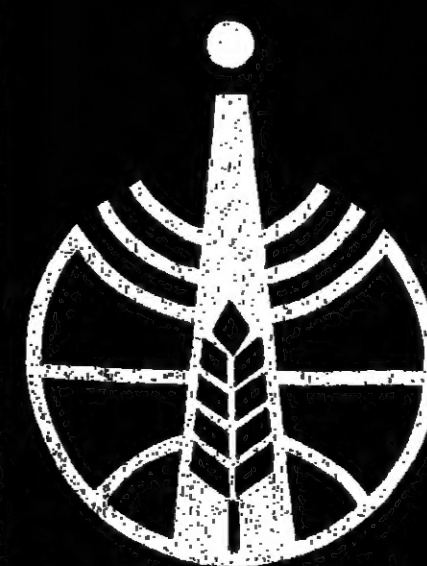
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HEVRAT OVDIM 1923-1973

The following sixteen pages are dedicated to the 50th anniversary of the Histadrut's industrial enterprises.



Protesting against ourselves

WHAT did you have in mind when you said recently, that May 1 should be not a picnic, but a protest? Protest against what and whom?

Protest we must — we, the Israel labour movement — against social injustice, which is gaining ground in this country. Against the inequities caused by inflation. Against the over-widening gaps in income and wealth. Against the fact that a handful of the well-to-do is getting ever richer, while the mass of the people is getting poorer. Against the rise in inequality of wage-earner incomes, revealed by the Lorentz index of inequality for 1972. Against the fact that people in this country cannot live decently without overworking, that they must toil six days a week while a five-day week is practised abroad, and a four-day week is suggested in many countries; that abroad a breadwinner works 35-40 hours a week while here he must work 50-60 hours. Against the prevalent neglect of aged and disabled people. Against the fact that tens of thousands of youngsters are growing up as social drop-outs. Against whom we are protesting? Against ourselves. We are not protesting against the Government. It is our own, democratically elected Government, but it is pursuing a wrong policy, and we protest against it on May 1, and on every other occasion.

But we are not only protesting — we have a long list of concrete demands. More money, instructors, clubs, freedom for the pioneering youth movements. A basic change in our secondary educational system, which provides pupils with knowledge but not with values. A reform of our universities, which are turning out certificate holders unconcerned about humanity.

And, of course, another approach to economics. A price freeze. Full compensation to wage earners for the price-rise that has taken place. A shift of the tax burden from the poor to the rich, from indirect to direct taxes. We are still against the planned imposition of the Value-Added Tax which cannot, but push the price level even higher. In short, you suggest yet more subsidies, and a steeper progression of income tax rates?

How else? Reactionaries and petit bourgeois — including The Jerusalem Post — decry subsidies. I know. But only those paid to the poor, not to the rich. Is anybody opposed to subsidies paid to universities? Or to investors? The state has been doling out billions to sharp businessmen and speculators. The whole of our economy is heavily subsidized, so why should we not subsidize first and foremost the people's basic commodities? Why should not bread be obtainable free, like health or education? And why only bread? It is pure demagoguery to claim that subsidies should be paid to the needy people, not to the commodities. It does not matter that when a commodity is subsidized the well-to-do also benefit from

Histadrut chief YITZHAK BEN-AHARON, perhaps the Government's sharpest critic, speaks out against the economic and social distortions he believes are caused by the Government's domestic policy. He is interviewed by Economic Editor MOSHE ATER.

It. What matters is that once subsidies are limited to the poor, a means test is involved. But this is not an issue of a limited group of particularly deprived people, of social cases or big families or pensioners or disabled persons. It concerns hundreds of thousands of people who work and earn a living, and yet cannot make ends meet because in a free market they are easy prey for speculators.

We consider subsidies to the Cost-of-Living allowance as a necessary feature of a progressive democracy.

Just now the Government is carving out massive subsidies to the projected new giant investment company, selling it all kinds of assets at reduced prices. We — the Histadrut — feel this policy is utterly wrong. Instead, appropriate taxes should be levied on the rich to subsidize the essentials of the 600,000 of Israel's middle-class who cannot pay their way because they do not get a fair share in our warped income distribution.

Would not such a policy interfere with our economic growth? Quite to the contrary — it would promote it. Sound economic growth is endangered by

inflation, but inflation is fed by the accumulation of speculative profits. What we need are productive investments, not parasitic ones. Anyway, 80 per cent of our investments are financed by public funds. Higher taxes would reduce the funds piled up by the few rich instead of being channelled into productive projects. On the other hand, the people's purchasing power would be enhanced and thus an impetus given to production and growth.

The theory of containing inflation by reducing purchasing power, by mass unemployment, was exploded long ago. Look at what is taking place in the U.S. and Britain — they have both high unemployment and inflation. Inflation breeds not on the people's living standard, but on the idle money of the rich.

Wouldn't massive high taxes, cross-subsidies, and investment controls, increase our already excessive bureaucracy even more?

Not at all. We must fight bureaucracy, but that does not mean that we ought to give a free hand to private enterprise. There is heavy-handed bureaucracy in the government sector but the Histadrut has proved that public services can be provided without it. There is a great difference between Kupat Holim, democratically controlled by its members, and the state administration, which — in the last resort — is not responsible to anybody.

Experience everywhere has shown that parliamentary democracy is not enough, that it must be supplemented by people's control of the economic process, by workers' participation in the management of business enterprises. In fact, in this respect Israel is lagging behind many countries which have introduced worker-directors without obstructing sound business procedures. It is high time for Israel to follow that example. That would reduce, not increase, the hold of bureaucracy.

Without hindering investments?

Why should investors be deterred by a progressive, democratic policy? And anyway we must apply some selection. We have been much too lax in allowing speculative, profit-oriented investment to develop so as to overheat our economy without contributing to our productive resources.

Let us go back to taxation. You do not seem to agree with the measures recommended by the Asher Committee.

Not I, but the Histadrut Central Committee has dissociated itself from that approach. We do not believe that high tax rates necessarily obstruct tax collection. That is a myth. Tax morale is highest in the U.S., in Sweden, where marginal income tax rates are highest. It is low in the Latin American countries, where income tax rates are low. What matters is not the rate, but the attitude to taxation, the administration's readiness to apply appropriate measures in order to enforce the tax laws.

In this country we are strict in collecting indirect taxes, which must be paid even by the poorest, but collection of income tax is riddled with loopholes, especially for the self-employed. We feel, therefore, that incomes exceeding IL2,500 to IL3,000 a month should be taxed much more heavily than recommended by the Asher Committee.

What about the Histadrut itself? Is it not meeting mounting difficulties in ruling the labour roost, in controlling the divergent aspirations of the various worker groups and unions? It depends upon what you call the Histadrut. The question may have sense if it refers to the top-most group of the Central Committee. But the Histadrut now comprises 40,000 work committees, 72 labour councils, 40 trade unions. It cannot, and

need not function anymore in the centralized way it was originally conceived. Today there are trade unions which have more members than the entire Histadrut had a few decades ago. The Histadrut's constitution must therefore be revised, giving more leeway to individual unions, letting them decide for themselves whether or not to strike, to sign a collective agreement, etc. The central body should only make the basic, overall policy decisions.

Let us wind up with a political issue. You are against employing Arabs in the Israel economy, and recommend investments in the administered territories in order to create adequate work opportunities there. You also recommend withdrawal from those territories. What would be the fate of those investments?

That requires careful planning. Basically I fully agree with Finance Minister Pinhas Sapir on this point, but I would expect him to set up a team to work out more detailed programmes.

We must check and reverse the flow of Arab labour into Israel before a slow-down takes place. That our economy cannot go on booming endlessly is obvious. Look at our trade deficit, at the mounting external and internal debt, at the rising inflationary pressure. The economy has got out of hand. But a recession will set back first and foremost all those Arab commuters, and we must get ready to provide an alternative for their employment.

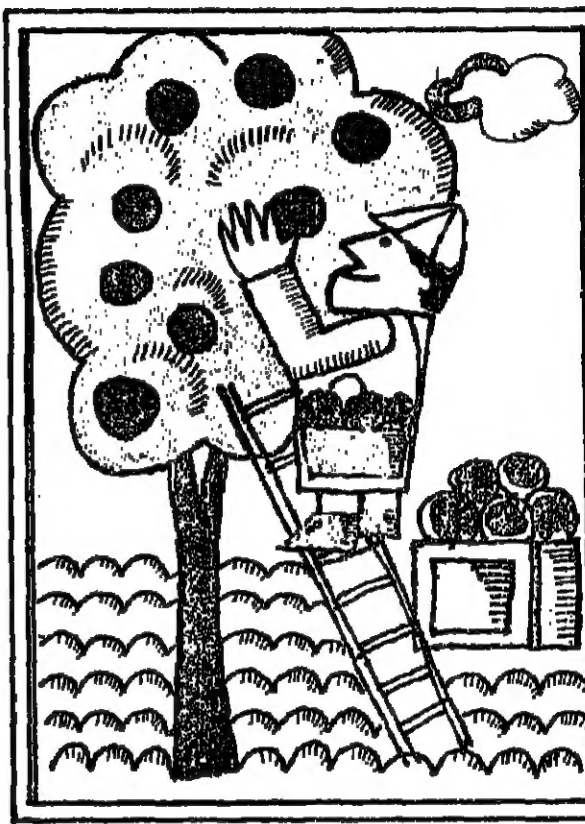
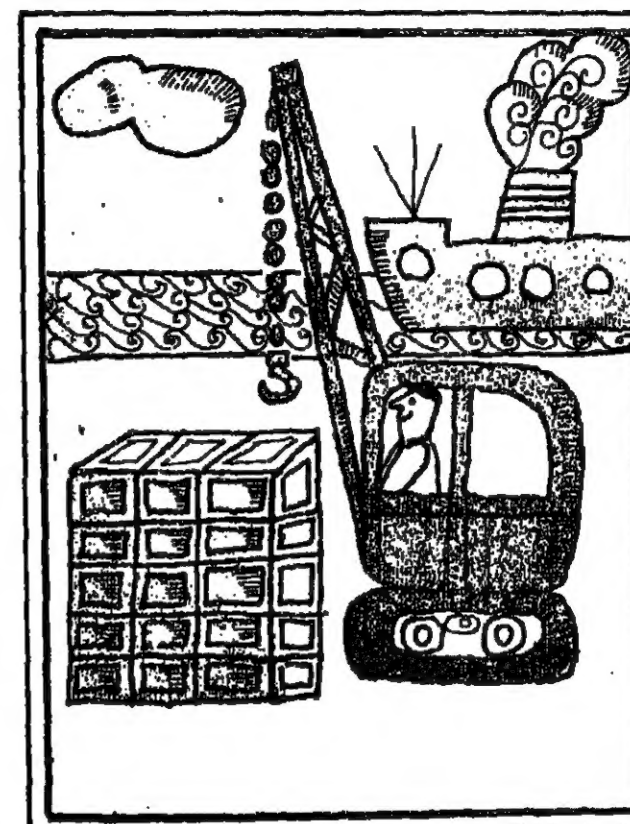
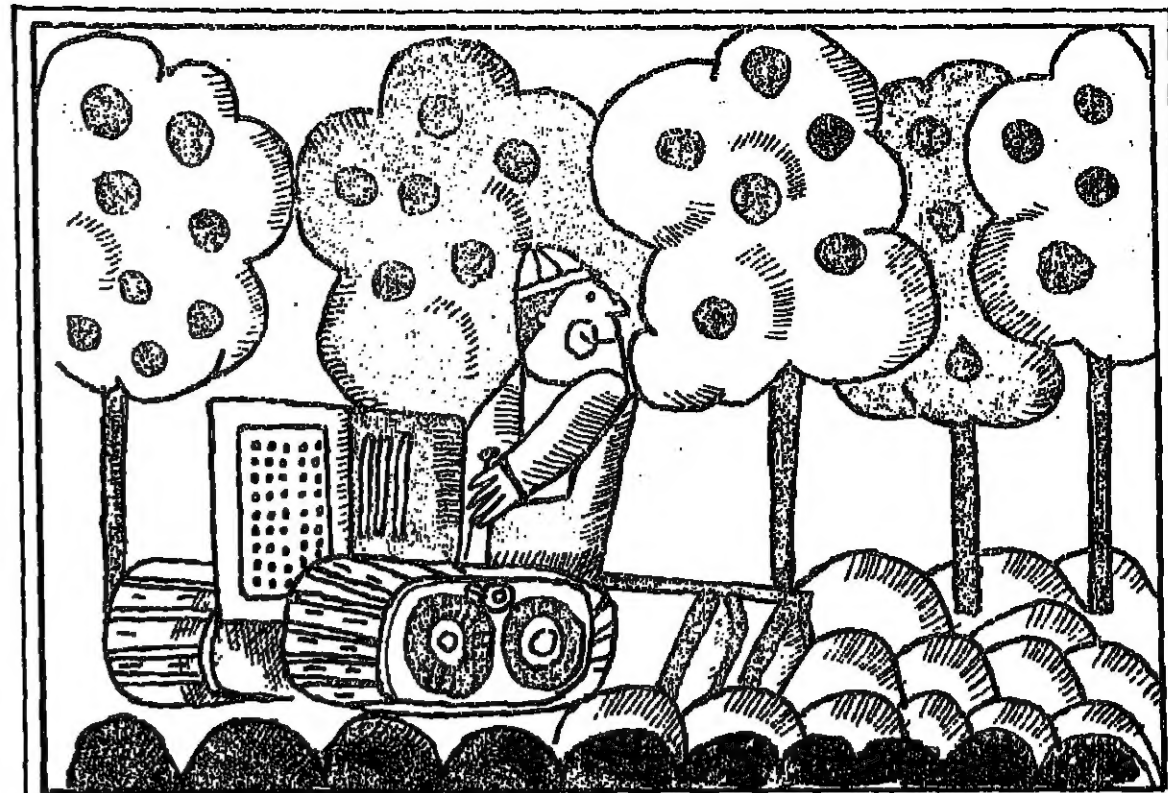
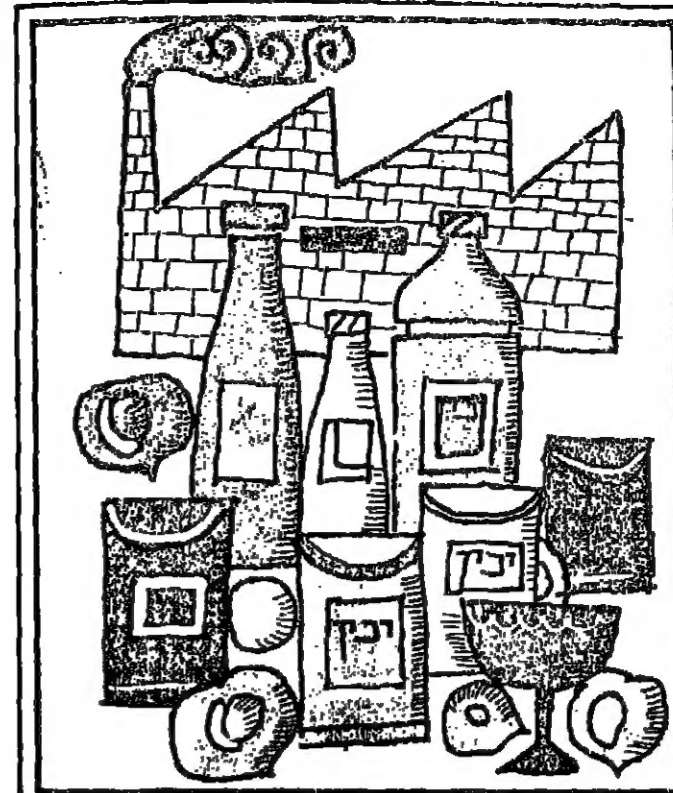
Moreover, in the long run the present system increases social tension, by combining the nationalist tension with the employer-employee relationship. Also it tends to affect our productivity adversely — because Arab labour is cheap, it can replace mechanization.

Thus, advanced technology must be introduced in the Israel economy to reduce the demand for labour, and at the same time factories, plants and workplaces must be promoted in the territories in order to absorb the workers now commuting over the border. That will require massive investments, of course. But we should consider it like any defence expenditure, like the millions poured into the Bar-Lev line, and not just from the economic angle.

It is indeed a political decision. After all, we are but a tiny minority in the Arab sea. In order not to be overrun, we must maintain a defence line of a Jewish state, and that means Jewish labour. Arabs already account for close to 10 per cent of all Israel wage-earners, and for much more than that in building and agriculture. This should not continue. The alternatives are heavy investment in developing the administered territories for their inhabitants so they needn't work here — or an apartheid regime — which we obviously could not permit.



Mr. Ben-Aharon and Manufacturers' Association President Mark Moosovitz at a negotiating session.



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TEUS ENTERPRISES

FROM KIRYAT SHMONA TO BEER SHEVA

TEUS — Regional Development Co. Ltd. 1972
(Extracts from the Director's report to the Board of Directors).

Summing up the company's activities in 1972, the positive trends which appeared in 1968, and continued thereafter, have been maintained. It will be recalled that TEUS was established in 1959 by the Government of Israel and the General Federation of Labor (Histadrut) in equal parts, with the aim of industrializing Israel's border areas. With the completion of this task by about 1967, the Histadrut acquired the Government's share in the company, and restated the objectives and the policies of TEUS. On the basis of this decision, TEUS was allotted three fields in which to concentrate its major industrial activity: Textiles, Medical products and Plastics.

TEUS was reorganized. A considerable number of companies and plants were sold or abandoned, and in their stead companies and factories in the fields of activity allotted to TEUS were acquired or established.

FUTURE TRENDS
In the next five years, TEUS will develop its business in the above mentioned fields of activity.

The Textile Division plans to expand its activities in the Spinning branch. The division intends to pass from spinning only cotton yarn to the manufacture of synthetic and wool yarns as well. In addition, investments have been completed, together with foreign capital, towards the production of rubber bands.

The Medical Products division has completed an investment project for the expansion of the production of pharmaceuticals and Chemicals. In addition a Development Division has been established for the purchasing and setting up of plants for the production of medical products of any reasonable technology.

The Plastic Products Division is expanding its activities in the direction of manufacturing sophisticated packaging for the food industry on the one hand, and the production of Skel suitcases and ABS luggage, on the other.

To serve the above mentioned development and expansion trends, TEUS is seeking partners both here and abroad. Preferable partnerships are such as are able to provide TEUS (in order of importance) with foreign markets, know-how, investment capital.

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Asher Yadlin,
director of
Hevrat Ovdim,
takes over as
head of the
Histadrut's Kupat
Holim earlier
this year.
(U.P.A.)

Wary of slogans,
Hevrat Ovdim Director
ASHER YADLIN
sees no difference in
the economic goals and
imperatives of private
and public enterprise.
Social amelioration lies
in efficiency, not
ideology, he indicates in
this interview with
MOSHE ATER.

The Same Basic Problems

Is there any special function
Hevrat Ovdim has to fulfill in
today's Israel?

Hevrat Ovdim is first and foremost an economic concern, and in economy there is no room for miracles. Hevrat Ovdim is a sector of the Israel economy owned and managed by the Histadrut. But ownership does not alter the way a concern, a factory or a project operates. A concern's output depends on many factors, among which ownership is of relatively minor importance. Output depends on work, management, knowhow, capital, human relations.

Of course, ownership also matters, especially from the social angle, but I feel people tend to overestimate it, to pin excessive hopes on the fact that a certain enterprise is owned by the State or by the Histadrut, and to draw dividing lines where they do not exist in practice.

The basic problems which we at Hevrat Ovdim face are the same as those of private industry: problems of training the workers, maintaining proper relations between workers and managers, finding the right kind of knowhow, establishing marketing contacts, providing the required capital funds, and so on. We cannot perform miracles, nor do we pretend that we can.

Do you mean that Hevrat Ovdim must prove itself on the economic and not on the social level?

Inseparable

Well, the two cannot be separated. Economic objective must help social advance, while social progress depends on economic means. But I feel we should give first priority to economic considerations — to profitability, accumulation of productive assets, efficiency, labour productivity, to a climate attracting investments. And, above all, to the requirements of our national economy. Human relations are also of paramount importance, but that is simply because economic objectives cannot be achieved without proper teamwork and mutual understanding. Both managers and workers must understand that decent living standards and high wages cannot be provided unless our products are competitive, un-

less we have the wherewithal to pay for our imports, unless our foreign accounts are balanced, etc.

What is the use of lofty slogans if we cannot achieve them? I do not overlook the importance of social equality. In our enterprises, the wage differential between engineer, manager and factory worker is considerably less than in private industry. One used to speak of a bottom to top wage ratio of one to four or five. In fact, it is no more than one to one and a half. This does not include several fringe benefits which managerial personnel enjoy, but still the difference — partly due to the low income tax rates on incentive wages — is often absurdly small.

You mean it is too small to be maintained?

An engineer working with us has a greater sense of purpose and often greater scope for activity than he is likely to have in a private company. He obtains satisfaction which cannot be expressed in monetary terms. So he is ready to renounce part of his salary. But until recently we were also helped in this respect by the high income tax rates. A man who got, say, IL5,000 a month in private industry and only half as much at one of our companies, had actually renounced only about IL700 in net cash wage, while the benefits provided in kind are more or less the same.

Now, after the cuts in income tax rates, the difference between our net wages and those in private industry is larger, and we must adjust ourselves to this situation.

Since you attach that much importance to income tax, what is your approach to the Asher Committee recommendations?

They are a great mixture, and cannot be lumped together. Basically, I am all for the principle of equal tax treatment of all incomes. When one starts to grant rebates, one must inevitably end with everybody getting them, which brings the matter back to square one. But it would be a delusion to expect an equal tax incidence to be introduced at one stroke. For that, the tax reform must be taken much further than has been suggested by the Asher Committee.

Why, for example, is overtime taxed at a special rate? Because people don't want to work overtime at the ordinary tax rates.

In order to arrive at a uniform tax, marginal rates must be cut much more. However, such a reform must take time, it cannot proceed unless the Value-Added Tax is introduced — perhaps not at once at a 10 per cent rate, as has been suggested, but at, say, 4 per cent at the start.

With that approach, you should find that you have many points in common with private enterprise.

Why not? Are not we operating in the same situation? With the same people? Don't we face similar problems? The labels "private" or "Labour" do not matter much. In many respects, we cannot help having the same attitude as private industry.

Take prices, for instance. Neither they nor we can keep prices stable if the cost of materials advances steadily, wages go up by 40 per cent over two years, financing costs soar. If all that is disregarded and prices are frozen, we shall go broke before long, and who would be helped by that? We also have a common interest in export premiums in tax reductions, in credit terms and investment incentives.

Joint ventures

I am not ashamed of that — I feel it is quite natural. In fact, we have a number of joint ventures in which private investors own 50 per cent, and they work very satisfactorily. We plan to expand that cooperation by floating shares on the stock exchange both here and in the U.S.

What about workers' participation in the management of your factories?

We have made some headway in this respect, as well as in profit-sharing. In more than 80 of our concerns, representatives of the employees take part in plant's or company's board, although I would not say that they are actually active in its management. In several cases, this participation has produced very good results.

In other cases, it has been used only for extending the pressure of the local workers' committee. You see, it depends on whether or not the people feel

themselves part of the common enterprise.

Would you say that the workers' participation attempt in the Israel Electric Corporation has failed or succeeded?

That is a quite special case, which must be judged in its particular context. On the one hand, the employees there have obtained very good terms, which involve a heavy burden on the Corporation's resources. But on the other hand, there have hardly been any strikes or work stoppages there, although the workers could have exerted tremendous pressure in such a vital monopoly concern.

Dual loyalty

Basically, I feel the system adopted there — in which members of the workers' committee are also active in the company's management — is not good, because it involves dual loyalty of those worker-managers and undermines responsibility. However, in the special circumstances, it may have been the best alternative, the best way to ensure smooth operation of the country's electric system.

What is better — the admittedly expensive way the Electric Corporation is being run — or the way in which our ports are run, always on the brink of a work stoppage?

It is the practical alternatives one must evaluate. I am always

concerned about the practical alternatives, not about slogans detached from reality.

Would you say a word about the situation in Kupat Holim, the public service you are now heading?

This is indeed a classic example of a vital public service, beset by the same kind of problems as any private firm — problems of efficiency, human relations, labour mobility, cost saving, etc. Though the doctors, the clerks, the personnel in Kupat Holim hospitals have a sense of humanitarian duty, their performance could still be improved by, say, 25 per cent, I am sure. But it may take several years to achieve that. It depends on proper management, on avoidance of party politics, on attention to details.

I do not believe in all that talk about equal distribution of national income, about ending social discrimination, etc. If Kupat Holim were to provide better service for its members, that would make their lives happier, and would be a real contribution to their living standard. I think the only one we could supply.

I would like the Histadrut, and all of us, to be concerned first and foremost about such concrete tasks. I feel that is more important than running after equality and such panaceas, and certainly more important than raising nominal wages and in the process fanning inflation.

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THE JERUSALEM POST ANNUAL ECONOMIC SUPPLEMENT

PAGE TWENTY-ONE

مركز البحث

Hevrat Ovdim and the Five-Year Plan

THE Five-Year Plan for development of the economy, worked out by the Treasury's economic planning unit, provides a framework to which Hevrat Ovdim must adapt itself if it is to assure a proper place for the labour sector.

The plan assumes that the country's relatively rapid economic development will continue, with average annual growth rates reaching 7.3 per cent for the gross national product and 7 per cent for exports. The plan assumes that private consumption will continue to grow, but at a slower rate than last year — though still by some 5.7 per cent annually. Public consumption should grow at a still slower rate of only 3.3 per cent. Gross investment should increase by a yearly average of 8.5 per cent, while exports are expected to rise an average 13.3 per cent in each of the five years.

The forecast is that two areas — industry and electricity — are to grow extremely rapidly in the wake of heavy investment. The amount invested in mining and manufacturing should rise from IL1,050m. to IL1,980m. by 1976, or a yearly rate of increase of 13.4 per cent, while some IL500m. is to be invested in providing electric power to assure the economy the energy sources it will require.

This means that the centre of gravity in this development programme rests on industry. Now, the master-plan for industrial development up to 1981 sees industrial output growing by an average of 9.5 per cent a year. It follows from this that the 1972 level of industrial output will be doubled by 1981. No less impressive and far-reaching are the goals set for industrial exports.

The programme expects these to double by 1976, which means sales of \$1,600m.

In employment, the plan calls for the number of workers in industry to grow until 1970 at an average annual rate of 4.5 per cent, which should bring it to 312,000 and by 1981 the number should reach 385,000.

To insure that the (1981) goals can be reached it will be necessary to invest some IL17,000m. in all branches of industry for physical plant, IL7,000m. for the period up to 1976. Putting these sums together will call for full utilization of the capital sources available to industry, above all enterprises' internal reserves. All sources of initiative — those throughout industry here, especially in the Histadrut sector, and those from abroad, immigrants and foreign investors — will have to be mobilized.

Obviously these goals for Israeli industry will be reached only if there are qualitative improvements in the structure of the country's industry. Change is needed in the relative weight given the various branches, in deployment of manpower, and in everything connected with size, organization and management of the industrial structure.

Under the five year plan there is going to be a clear rise in the importance of such branches as metals, electricity and electronics, transport, chemicals, rubber and plastics. A greater part of the labour force will be made up of highly-skilled employees: engineers, practical engineers, technicians, and machine operators.

The trend in the structure of individual enterprises will be towards greater size, and greater specialization in lines produced

through expansion or merger of existing enterprises. There will also be a change in the attitude towards shift work. These will lead to greater utilization of existing plant and capital, as well as of manpower at the higher technical and managerial levels.

Hevrat Ovdim's economics department has long since worked out the broad outlines of a development policy for Histadrut-sector industry in the coming five years. These outlines reflect the central role which industry must play in the labour sector if there is to be a reversal of the relative decline that has developed in the sector's share of total national production.

To achieve this reversal, the Five-Year Plan calls for labour-sector net production to grow at a yearly rate of 8.5 per cent, as against the 7.3 per cent annual rate forecast for total national production over the same period. This means that, taking 1970 as a standard, production will grow from IL3,000m. to IL4,500m. by 1976, an increase by some 50 per cent.

The growth in labour-sector production will rest mainly on an increase in industrial output. It is predicted that labour-sector industrial output will rise from IL690m. to IL1,400m. by 1976 — which is equivalent to a 15 per cent annual growth, as against the 11 per cent forecast for Israeli industry as a whole.

At the same time the share of agriculture in labour-sector output will go down from its 26 per cent level of today to 20 per cent in 1976.

The actual execution of the plan will depend on finding solutions to three fundamental problems which arise out of the labour-sector's peculiar position today.



Preparing washing machines for export.

The first of these concerns profitability. Without accumulation of sufficient reserves, the sector will be unable to achieve its goals.

Efficiency and productivity will have to be raised, and existing plant and personnel will have to be deployed more efficiently by reducing inventories, updating norms, introducing shift work, and eliminating hidden unemployment.

The second problem involves improving the capital structure and ensuring large and reasonably cheap sources of outside financing. In this connection, profitable production units will have to be closed down and their assets (in capital and labour) will have to be directed to new and more profitable areas of activity.

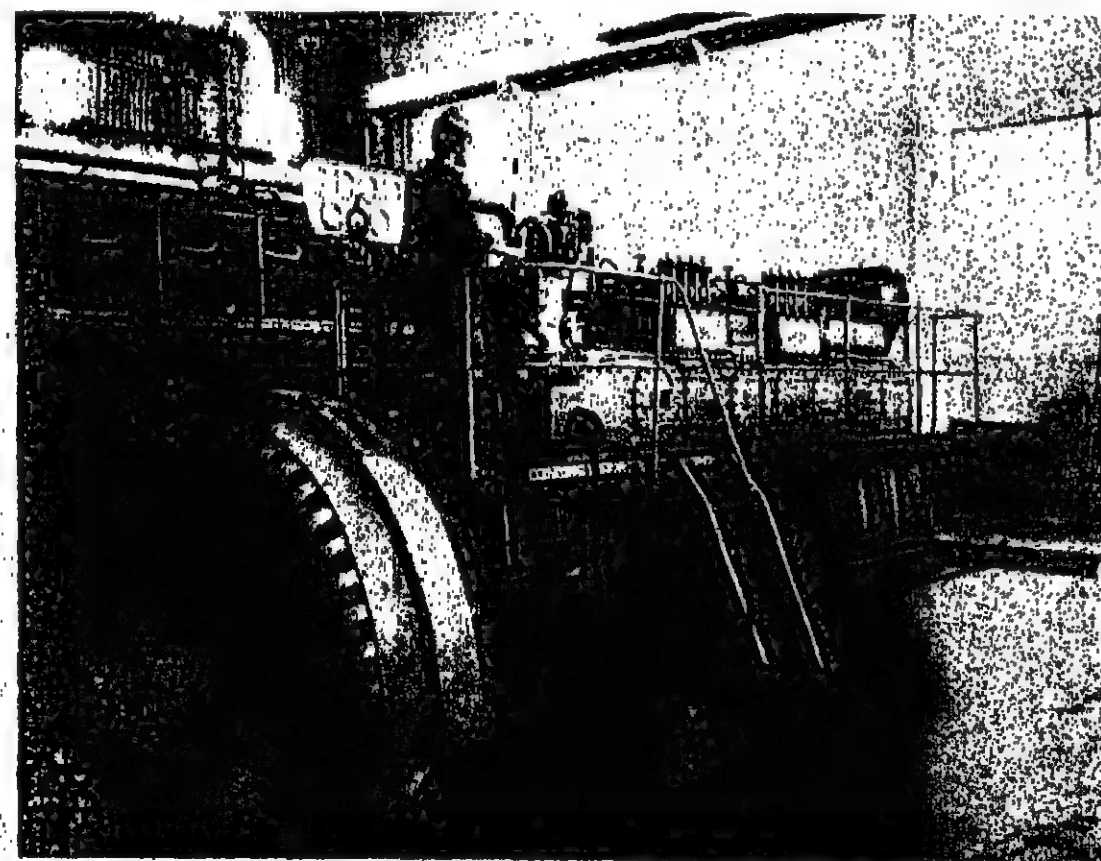
The third fundamental problem concerns finding a fitting solution to structural questions of organization, including the social question.

All this means that Histadrut

industry will have to be firmly selective in allocating investment. It will also have to make certain that in future it channels an ever greater proportion of its output into exports. Although its portion of the country's industrial exports (aside from diamonds) already comes to about 17 per cent, by 1976 this will have to increase to 21 per cent — namely, to some \$200m.

The lead will have to be taken by the metals and electronics industries. Next should come the food industry, which already plays a major role in the overall export effort. The labour sector's chemicals, rubber and plastics industry will also have to raise exports by over 3.5 per cent.

To reach all these goals the labour sector will have to mobilize some IL1,580m. by 1976, at the same time that industry in general will be seeking some IL7,000m. In other words, some 25 per cent of the total investment forecast for the nation's industry will be going into the labour-sector.



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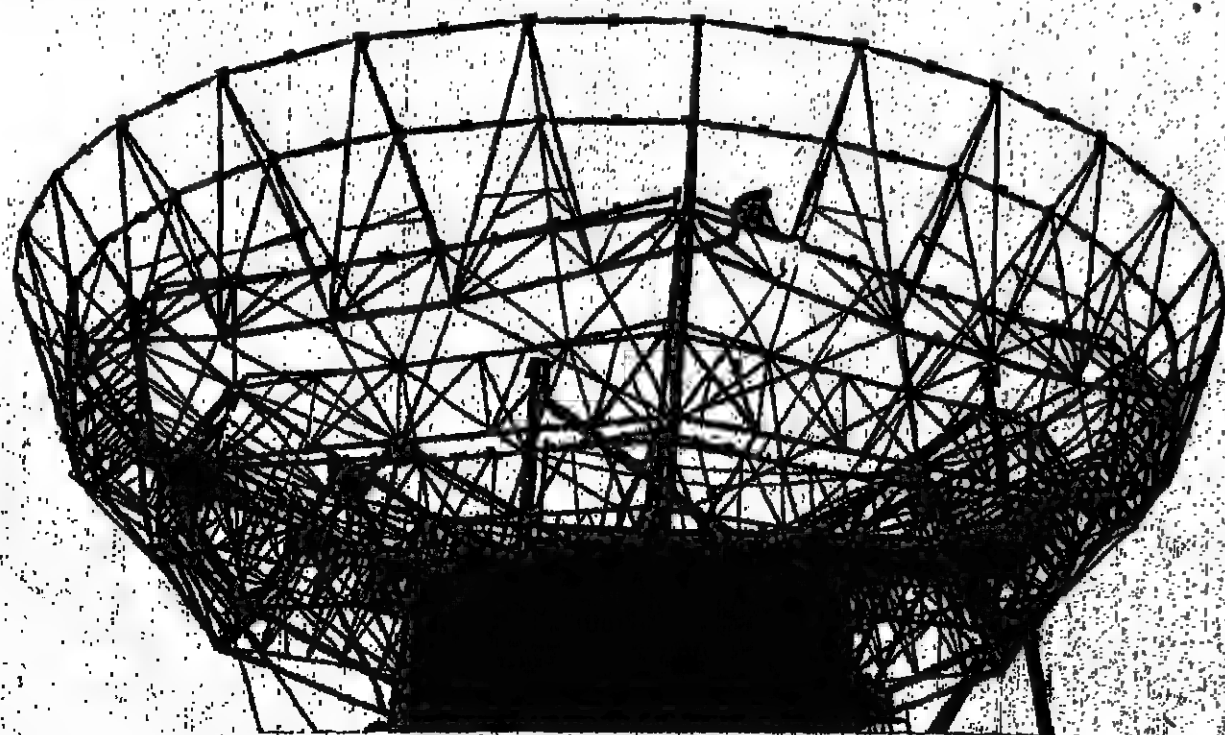
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Chances are, that wherever you go in Israel you'll run into something produced by Koor Industries. It is, after all, the largest industrial group in the country — and the scope of its operations is felt throughout the land.

But size alone is not the distinguishing factor about Koor Industries. It is a many-faceted group whose varied aspects create a mosaic that is truly unique in Israeli industry and society. It successfully forges together diverse plants and combines the forces of industry and technology along with a sincere concern for the individual, into a trend-setting, profitable corporate picture. It is a dynamic source of creative power, modern techniques and production methods all directed toward the service of Israeli and international trade and industry.

Koor is the industrial arm of the Histadrut General Labor Federation. With 64 plants in its ownership Koor is in the remarkable position of being a large industrial group in the ownership of a trade union. This seemingly contradictory situation does not detract from Koor's drive for efficiency, productivity and profitability but brings it into sharp focus through a heightened sensitivity to labor relations and all that this entails. It is in this field, as well, that Koor is looked upon as a pioneer and trend-setter. Koor has been the leader in profit-sharing plans, participation by employees in various plant operational committees and continuing dialogues between management and employees.

PACING ISRAELI INDUSTRY IN THE 70'S



In its never-ending search for maximum utilization of its physical and financial resources, Koor Industries is constantly expanding its markets, developing and penetrating new fields, building new plants, modernizing older ones, utilizing sophisticated technological advances. With this in mind, Koor management has made it part of its determined policy to actively seek selective joint ventures within the scope of its operations. Companies are either wholly-owned subsidiaries or joint ventures.

About 40% of the plants are based on mutually successful ventures with local and foreign investors including such internationally known groups as G.T.E. International, U.S.A.; Glaverbel S.A., Belgium and Korf Industrie und Handel, West Germany.

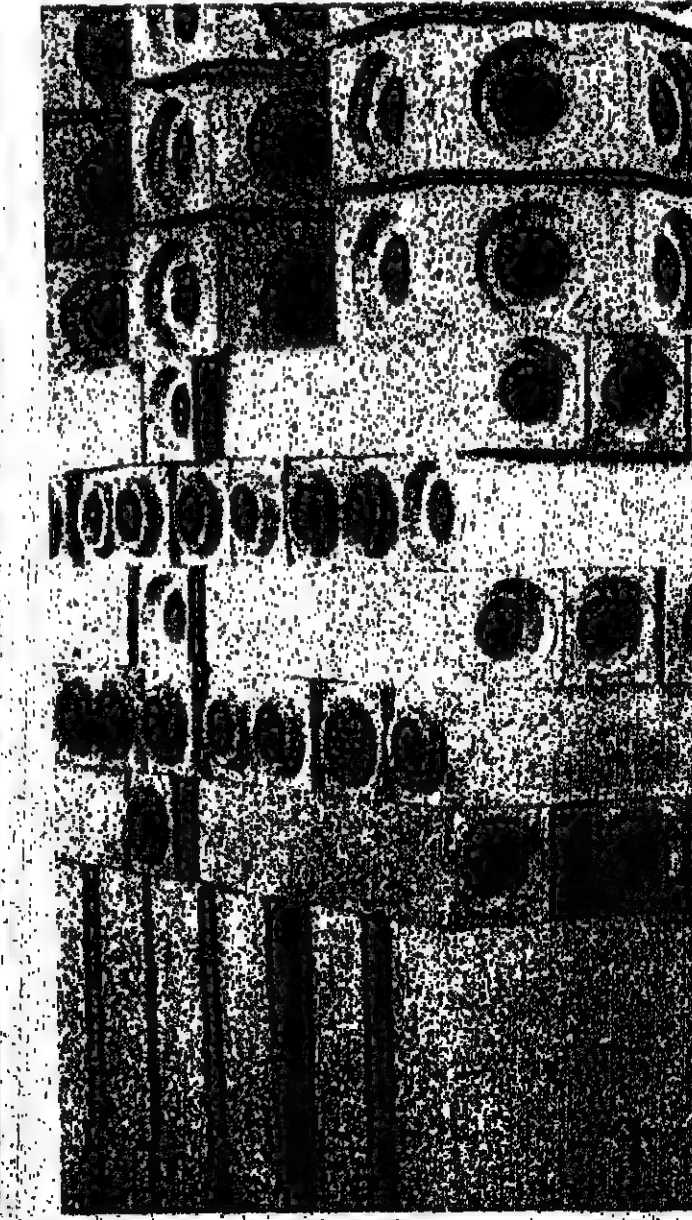
Due to the very make-up of Koor, its identification with national goals and aspirations is near to complete. In the drive for a viable and self-sufficient Israeli economy, as well as marked company progress, exports play a vital role. One of the primary objectives of Koor policy is a continuing and ever-growing rate of export sales. This emphasis in this area has led Koor to the

forefront of Israeli industry and projections call for a further increase of 300% in five years time. At present, exports account for 20% of sales.

The Inter-Trade division, which maintains 26 branch sales offices in the United States, United Kingdom, Europe, East and West Africa and the Far East, has had a considerable effect in the dramatic rise of export sales. One of the new units in this division, Koor International Projects (KIP) initiates new ventures and stimulates projects for various Koor companies and other Israeli interests overseas.

The plants of Koor are located all over the country, in the most heavily industrialized zones as well as locations classified as development areas. Koor is spread out from Kiryat-Shmona in the North to Mitzpeh-Rimon in the South. It has been concerned, for many years, in the development of industrial "frontier" areas in keeping with the governmental determination to shift emphasis from the heavily populated and industrialized regions.

With each passing year, Koor Industries goes from strength to strength. The determination to continue this growth pattern through the combination of dynamic human forces along with the utilization of the most advanced technology will serve to ensure Koor's special position in Israeli social, public and economic life.



(ADVERTISEMENT)

Leading The Way In Israeli Industry

To fully appreciate the size and importance of Koor Industries, it is important to study its figures alone, and in relation to Israeli industry as a whole. Koor is the recognized industrial leader in the national and international markets and sets the pace for the nation to follow.

In absolute terms Koor:

- ★ Employs almost 20,000 people
- ★ Projects sales in 1973 of more than 500 million dollars
- ★ Projects exports of 65 million dollars worth of products in 1973

In relative terms Koor:

- ★ Produces 9% of the total Israeli industrial production
- ★ Accounts for 10% of Israel's total industrial exports (excluding diamonds)
- ★ Employs 6% of the total industrial manpower in Israel

THE EMPHASIS IS ON QUALITY— ALL THE WAY DOWN THE LINE

STEEL AND METALS

- Koor Metals Ltd.
1. Agan Engineering Works
2. Hamat Engineering Works
3. Hamat Sanitary Fittings & Castings Works
4. Ham-Oz Ltd. (*)
5. Israel Cutlery Industries Ltd.
6. Mesh & Wire Drawing Works
7. Reshet Sigma (1952) Ltd.
8. Merkavim Metal Works Ltd.
9. Ramim Engineering Works
10. Gichner-Ramim Ltd.
11. Simat Works
12. Vulcan Engineering Works
13. Yuval Gad Manufacturing Co. (*)
14. Engeler Steel Manufacturers Project Division
The Unit for Marketing Household Utensils

HEAVY METAL, ARMAMENT & AMMUNITION PLANTS

15. Israel Steel Mills Ltd.
The Scrap Metal Centre Ltd. (*)
16. Middle East Tube Co. Ltd.
17. Joint Pipe Industries Ltd.
P.D.E. Pipe Development Engineering Ltd. (*)
18. Soltam Ltd.
19. The Carmel Forge Co. Ltd. (*)
20. Vulcan Foundries Ltd.
21. Raphael Water Works Ltd.

GLASS & CERAMICS

- Koor Glass & Ceramic Works Ltd.
22. Lapid Ceramic Works Ltd.
23. Israel Ceramics Works "Harsa" Ltd.
24. Negev Hasin-Esh (Refractory) Works Ltd.
25. Neaman Ltd.
Rami Refractory Specialties
26. The Israel Safety Glass Co. Ltd. (*)
27. Phoenixia Flat Glass (Haifa) Ltd. (*)
28. Phoenixia Containers (1970) Ltd.

Other Plants

29. Phoenixia-Brand (Ph.B.) Ltd. (*)

ELECTRIC & ELECTRONICS

- Tadiran Israel Electronics Industries Ltd. (*)
30. Battery Plant
31. Electrical Appliances Plant
32. Electronic Consumer Products Plant
33. Exchanges & Switching Plant
34. Mechanical Plant
35. Military Electronics Plant
36. Quartz Crystal Plant
37. Semiconductor Plant
38. Electric Products Industry "Izrom" Ltd.

- Telrad Telecommunications Electronics Industries Ltd.
39. Telrad
40. Citor Industries Ltd. (*)
41. Keren Electronics Ltd. (*)

Other Plants

42. Vulcan Battery Works Ltd.

SCIENCE-BASED INDUSTRIES

- Koor Scientific Ventures Ltd.
43. Koor Systems, Research, Development & Engineering Ltd.
44. Meeda Electronic Industries Ltd.
45. Orda Industries (1969) Ltd.
46. Tedeo Technological Development & Automation Ltd. (*)
47. Zioni Chemicals Ltd.

CHEMICALS

- Koor Chemicals Ltd.
48. Makhteshim Beer-Sheva Chemical Works, Ltd.
49. Samgaz (Iran) Co. Ltd. (*)
50. Agan Chemical Manufacturers Ltd. (*)
51. Askar Ltd.
52. Explosives Industries Ltd. (*)
53. M.A.I. Microbiological Associates Israel Ltd.
54. Rotoplas Ltd.
55. Resins & Polymers Ltd. (*)
56. Amir - Reinforced Plastics Ltd. (*)
57. Bromine Compounds Ltd. (*)

FOOD AND CONSUMER GOODS

- Food & Consumer Goods Division
58. Ganda-Koor Export Ltd.
59. Shemen Industries Ltd.
60. Heine Curtis Enterprises (1967) Ltd.
61. Mata Food Industries Ltd.
62. Beer-Sheva Flour Mills Ltd.
63. Jerusalem Paper Products (M.A.N.A.) Ltd.
64. Yotnah-Fishing and Industry Ltd.
65. Pri-Mosheh Ltd.
66. Israeli Sugar Products Ltd. (*)

CEMENT & STRUCTURES

- Nesher Cement (Holdings) Ltd. (*)
67. The Israel Portland Cement Works Nesher Ltd. (*)
68. The Israel Portland Cement Works Nesher Ramla Ltd.
69. Nesher
Nesher Paper Products Industry Ltd. (*)

WOOD, CARDBOARD & PAPER

70. Ashkelon Plywood Ltd.
71. Carmel Containers Corrugated Cardboard Industries Ltd. (*)
72. Paper Products Industry Ltd.

RUBBER, PLASTICS & LEATHER

- Rubber & Leather
73. Hamgaper Ltd.
74. Jerusalem Shoes Corporation Ltd.
75. Gamid Rubber Products & Plastics Ltd.

Tires & Rubber

76. Shelon Chemical Industries Ltd. (*)
77. Alliance Tire & Rubber Co. Ltd. (*)
78. Alliance Kesarya Polymer Industries Ltd. (*)
79. "Samson" Tire & Rubber Co. Ltd. (*)

MARKETING

- Koor Inter-Trade Ltd.
80. Alda Israel Foreign Trade Co. Ltd.
81. Koor International Projects Ltd. (KIP)
82. Solcoor Incorporated
83. Solcoor Marketing & Purchasing Co. Ltd.

SALES COMPANIES

- Alliance Marketing & Services Ltd. (*)
Nesher (Cement Marketing) Ltd. (*)
Tadiran Marketing (1970) Ltd. (*)
Glass Marketing Co. Ltd.

SERVICES & INVESTMENTS

- I.S.L. Industrial Services Co. Ltd. (*)
Factors Industrial Services & Financing Ltd. (*)
Koor Investments Ltd.
Koor Properties Ltd.
Koor Computers Ltd.

For more information about the scope of Koor's operations, please write to:
Koor Industries Ltd.
8 Shaul Hamelekh Ave., P.O.B. 33333, Tel-Aviv



Industrial Branch
1970

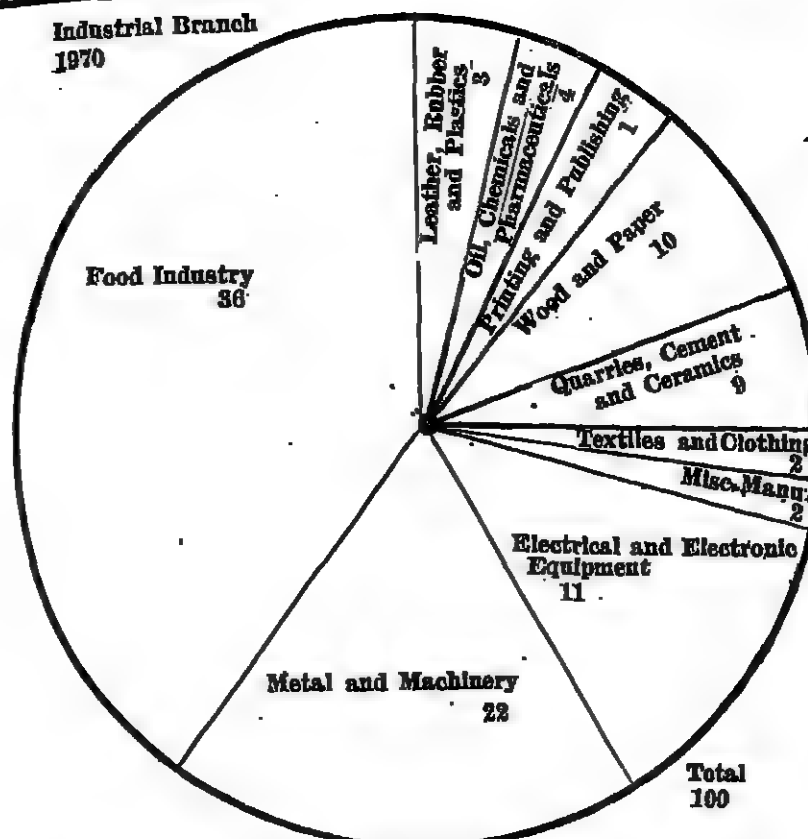


Chart shows earnings by Hevrat Ovdin branches in 1970.

The labour sector is of great importance to the Israeli economy. Last year, the Histadrut's industrial output reached the impressive figure of IL2,850m., an increase of 25 per cent over the previous year. This is the way it functions.

IN recent years the Histadrut sector of the economy has placed particular emphasis on the rapid development of its industrial branch, and invested considerable means and effort towards this end. The first fruits of this effort have been seen in the last few years.

For example, employment in the labour sector has gone up by 15,000 in the last three years — to 283,000 — and more than 37 per cent of the increase has been in industry. This means that the percentage of workers in the labour sector employed in industry grew from 9.8 in 1970 to 10.7 last year. The greatest part — some 65 per cent — of the 5,400 more jobs provided in the labour-sector industry was provided through the growth of the Histadrut's Koor concern.

Another major contributor was the rapid expansion of industry on the kibbutzim, who engaged 28 per cent more workers in their plants during the period.

In other words, of the entire number employed in the labour sector, those employed in industry grew from 17.9 per cent in 1970 to 19.9 per cent in 1972. But the number of workers alone does not tell the full story of the rapid growth in labour-sector industry. Net output for the entire labour sector, which in current prices came to IL2,370m. in 1970, reached IL4,100m. last year — a massive increase of 40.3 per cent. During the same period the net output of Histadrut-owned industries went up from IL619m. to IL937m. — a rise of about 46 per cent. Only building surpassed industry in rate and size of increase.

Seven organizations

The labour sector's industrial activity takes place within seven organizational frameworks, among them: Koor, Solel-Bonah's industrial establishments and the various Kibbutz industries. Some of these are owned outright by Hevrat Ovdin, while in others the company has an interest and provides guidance and supervision. However, as far as allocation of Hevrat Ovdin resources is concerned, all these organizations form a single overall entity.

At the end of 1971, the Hevrat Ovdin's industrial sector counted some 800 enterprises. Last year

the Histadrut's industrial output grew by 25 per cent, and reached the impressive total of IL2,850m.

A good example of the rapid growth of Histadrut industry is furnished by the enterprises grouped together under Koor. This firm's total sales, which amounted to IL1,450m. last year, are expected this year to reach IL1,850m. — an increase of some 27 per cent.

The growth and expansion of Histadrut-sector industry must be seen against the background of Israel's general industrial development. Gross industrial output has increased tenfold since 1950, from IL2,000m. (in terms of present prices) to about IL19,000m. at the end of last year. This annual growth rate of 11 per cent over a period of 22 years is something achieved in no other country save Japan.

During the same period Israel's industrial exports grew by more than 60 times — from \$18m. in 1950 to \$930m. last year. This is an average growth rate of some 10 per cent a year in real terms. The share of industrial production in exports increased from 4 per cent in 1950 to 20 per cent in 1972.

Israel's industry, including that part of it belonging to the Histadrut sector, has become a central source of employment. The number of industrial employees has gone from 90,000 in 1950 to 285,000 last year, with some 44,000 (18 per cent) of the latter working in labour-sector industries. In the same 22 years the amount of active capital employed in industry has increased tenfold — from IL1,000m. in 1950 to IL10,000m. last year. All told, in Israel's 25 years of existence as a State some IL12,000m. has been invested in all branches of industry.

This trend of expanded industrial output continued last year throughout the economy at a rate similar to that of past years. Industrial production grew in real terms by about ten per cent, and industrial output amounted last year to some IL19,000m. Industrial exports achieved impressive growth, and a considerable part of this was due to the Histadrut sector.

Koor showed a particularly rapid rise in the export portion of its production, which reached by approximately 4.5 per cent

INDUSTRY'S PLACE IN THE LABOUR SECTOR



25 per cent of total (Koor) production of \$64m. The forecast for this year is for \$68m. in industrial exports for the various concerns grouped together under Koor, or a growth rate of 25 per cent.

Today exports account for 19 per cent of sales by Koor enterprises. But what is even more important is that Koor exports grew last year at twice the 12 per cent rate achieved by Israeli industry as a whole.

More investment

Expansion of industrial production, both in the overall economy and in the Histadrut sector, depends to a large extent on the present scope of investment in industry.

Gross investment in permanent industrial plants came in 1972 to IL1,400m. as against IL1,050m. (in current prices) in 1971. Gross investment in Histadrut industry amounted last year to IL500m. in real terms, last year saw a 10 per cent growth in the gross investment in Israeli industry. On the other hand, a slight fall must be noted in approvals of new enterprises by the Investment Centre, which in 1972 authorized 387 projects for the establishment or expansion of industrial enterprises — at a total investment of IL924m. — as against 320 projects at an investment of IL862m. in 1971.

Israel's industry will continue to develop this year along the lines laid down by the long-range plan. Industrial output will grow by 10 per cent and reach IL21,000m. The proportion expected to increase by about 16 per cent and reach about \$4,100m. The number of persons employed in industry will go up

to stand at 283,000. And the official prices policy which has not always taken account of industry's actual capacity to absorb a large part of the rises in over-heads. Wage rises have also placed a considerable burden upon many firms. It has not always been possible to compensate properly for this, and thus keep profitability from suffering and enable enterprises to accumulate enough of the means they need to meet the development and expansion goals.

Steel City, Telrad Electronics and Tadiran.

Two revolutions plus one

Some Hevrat Ovdin enterprises have for the last few years been passing through a double revolution — one administrative and the other technological. For various historical reasons, greater weight had been placed in the industries which grew out of the needs of the Jewish economy in the pre-State period. The efforts made to change lines of production and adapt them to the needs of the future have not always been successful. It has proved necessary to replace management personnel and even to find the courage to shut down outmoded and money-losing enterprises.

Today, Histadrut industry finds itself in a stimulating race with the private and State sectors as it strives to keep and increase its share of overall industrial production. This is no easy task; it will demand considerable investment, outstanding management ability, the capacity to adapt and, above all, the channelling of a greater part of production towards export in order to put more foreign exchange in the Israeli coffers.

But all things considered, in the last few years Hevrat Ovdin industry has taken a great step forward in the right direction. There is no need to look back in anger.

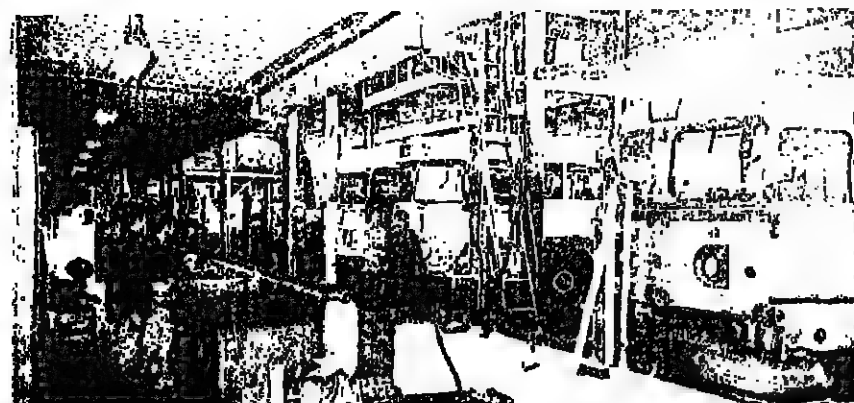
MONDAY, MAY 28, 1973

THE JERUSALEM POST ANNUAL ECONOMIC SUPPLEMENT

PAGE TWENTY-SEVEN

مركز من الأخبار

The DAN COOPERATIVE IN 1973



Whoever thinks that the DAN Cooperative can rest on its laurels in 1973, and take a breath after its continuous struggles, is mistaken.

The present management, chosen in 1969, started its work under unprecedented conditions, in one of the most difficult years in the Cooperative's history — debts had increased, income had reached a low, and its obligations weighed heavily. The first task of the newly elected management was to reorganize the entire financial and economic set-up of the Cooperative. The situation improved gradually: payment of wages was no longer delayed, the phenomenon of cheques with no cover disappeared, and, most important, within a year, DAN presented a new and improved image to the government and other authorities.

This was only the first, though very important, step towards the economic restoration of the Cooperative. The question of whether services could be run on a profitable basis became increasingly pressing. Prices rose continuously, operational costs are not coming down, to say the least, and at the same time nothing seems to be more complicated than an adjustment of passenger fares.

And thus, just having overcome its past troubles, DAN had to tackle new problems in order to ensure the Cooperative's sound foundation, and to improve the lot of its members.

For years the DAN Management had claimed that the chances of an economic recovery were next to nil, if they were not to be allowed to expand their services beyond the Tel Aviv-Yafo region, to which they were confined. It was a matter of life and death for the Cooperative to receive a license for the operation of additional lines outside this region.

The struggle was not an easy one. Its sister company, Egged, did not like the idea of sharing post-Six Day War Israel with DAN. They seemed to take it for granted that our borders had been expanded for their benefit only, and that they held the exclusive title not only to the administered territories but also to the whole of Israel. DAN cannot accept this position, which is also incompatible with the demands of the public.

An inter-ministerial committee which had been appointed to investigate the situation of the cooperatives not only praised DAN's efficient organization, but also justified its claims: without new, inter-urban lines DAN would not stand a chance of stabilizing its economic position. The DAN Cooperative, of course, regarded the committee's findings as an official recognition of its demands. In the wake of the committee's findings a fierce struggle for new inter-urban lines ensued, resulting in a general acknowledgment of the justice of DAN's demands.

Two years ago, DAN proudly inaugurated its new inter-urban route from Ramat Gan, Bnei Brak and Givatayim to Jerusalem and back. Within two months this line proved to be highly efficient and profitable. But one swallow does not make a summer. It was not long before a new struggle started, this time for the right of passenger transportation to the administered territories, that is, to the Arab towns and villages beyond the "Green Line." Without the intervention of the Ministry of Transport and its recommendation in favour of DAN, this struggle would still be going on. It is to be regretted that this result was achieved only after long

deliberations, court sessions, and even fist fights.

But this is not yet the end. This year, DAN has plans to open regular services to and from Beer-sheba, Haifa, Rishon Lezion, Nes Ziona, Ramat Hasharon and other settlements. The DAN Management knows that these plans will entail new struggles, but it is also well aware that it cannot afford not to wage this fight, which would mean shelving its development plans.

Simultaneously with this fight between the cooperatives, additional "battles" are fought on other fronts, the most important being the fight for priority rights to public transportation in Tel Aviv. Some people (and among them the authorities...) seem to forget that Tel Aviv, one of the youngest towns in the world, has been built and planned without any provision for modern urban transportation. Consequently, Tel Aviv's narrow streets are fit for horse and donkey carts, and not for motorized vehicles whose number increases daily. More and more traffic arteries are being blocked and driving a motor vehicle in town has become almost impossible. Statistics show that the average speed is not higher than that of a pedestrian! DAN's complaint, made only two years ago, that the average speed did not exceed that of a horse carriage, has already become outdated!

Cautious people may consider it a good thing that these "speed limits" have been imposed by the circumstances. But this "advantage" does not offset the disadvantages. It has become impossible to run regular bus services. Buses arrive at stops at irregular times, or more than one bus reaches the same stop at the same time. Many people fail to under-

stand that this is not the result of faulty planning on the part of the bus companies, but of the general situation of urban transportation. Apart from this, the operating costs of vehicles that travel slowly are higher than those moving at a normal speed. More buses are needed to meet the public's demands. And the result: dissatisfied passengers and a growing deficit for the cooperatives.

The traffic experts of DAN have made an unambiguous demand: transportation must be planned, even if the city has been planned without any provisions in this field. After long deliberations, the city fathers and the police have at last become convinced that it is worthwhile to give the DAN proposals a trial. Rehov Ben-Yehuda and Rehov Dizengoff have become one-way streets for private cars, and things have already improved considerably, to the benefit of bus drivers, and also of drivers of private cars.

We at DAN were naive enough to think that the success of this experiment would be followed by similar changes in other parts of the city. But the traffic planners are not easily convinced. And were it not for the threat to close down public transport completely, they would probably have continued their deliberations, meetings, postponements and reconsiderations of the DAN proposals for many months. Anyhow, in the next few months, we may expect the introduction of the new one-way systems in other parts of the city.

Another problem is the quality of the buses. Passengers and cooperatives have become used to one type of bus only: the Leyland "Tiger." In the early 'fifties this may have been the best and most modern bus, but Leyland has not kept up with the developments of the last decade (maybe because it was so sure of its exclusive position, that it did not think it worthwhile to invest money in development projects). If DAN were a private enterprise, it would have been free to buy buses of its own choice. But being a cooperative, it was compelled by the Government to purchase only one type of vehicle — Leyland. In the meantime, things happened to Leyland... And the experts of Dan and Egged began to search the markets for new, suitable buses. In the near future a new, modern type of bus will be operating.

rated: the American G.M., which, no doubt, will satisfy both passengers and drivers.

Although real progress has been made in all these fields, it is still too early to point to achievements in the planning department. After all, it is not the DAN staff who are to be blamed for the dirt in buses, but the Israeli public whose bad habits in this sphere are well known.

Among DAN's outstanding accomplishments during the last few years are organized trips and excursions. This department, which had long been the Cooperative's step-child, has recently reached an unprecedented high level of activity, as a result of the boom in foreign and internal tourism.

DAN has taken on itself the task of trying to persuade the authorities and the public that it



is desirable to keep private cars out of the centre of the city — which is already the practice in many countries. If this idea is realized, the streets will be emptied of parked cars that obstruct the flow of traffic, and more people will be able to reach their destination in comfort and in less time. But, unfortunately, in the meantime, the trend is in the opposite direction: more and more people buy cars, the streets are blocked, the speed of public transportation becomes increasingly slow and nerve racking, and as a result more people buy cars, which block the streets — a vicious circle. The DAN Management is trying to break this circle, to the benefit of passengers and cooperatives alike.

No, it isn't easy to run the greatest urban transportation cooperative in the world. It isn't easy to wage constant fights. But if we don't want to return to a state of complete anarchy, the fight has to go on.



Hevrat Ovdim plays a major role in the Israel economy, including a substantial presence in the food, electronics and construction industries



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مكنا من الاصل

INTERVIEW WITH AVRAHAM OFFER

M.K., General Manager of Shikun Ovdim

"We have solved the difficult problem of housing for young couples."

Question: As someone directly involved in the discussions of Hevrat Ovdim — the Secretariat, the Executive, and the various committees — how would you define the tasks of Hevrat Ovdim in the next few years?

Offer: In the immediate future, we must attempt to preserve the status quo. I do not mean that we should rest on our laurels and put ourselves on the back. We have reached an acceptable balance between the Histadrut grouping and other sections of the national economy. As I say, the balance that has been achieved after great efforts in the fields of industry, building, banking, and even commerce and marketing, is an acceptable balance. I do not believe that any significant changes can be achieved in the existing interrelationships, and I do not consider that any such changes should be sought. We are all involved in considerable work, aimed at preserving the worker's share of the national economy. This is an object in itself. The maintenance of our share involves considerable efforts, investments amounting to hundreds of millions of pounds, persistent efforts to meet the competition, and to keep up with innovations. I am sure that the private sector will also find it far from easy to maintain its share of financing, skilled manpower, etc. I must add that, in one field, we have not succeeded in explaining ourselves. I refer to the unity of the workers. Here, there is a worrying misunderstanding. In the Histadrut, we have been doing, and are continuing to do, things which people do not know about, or are unable to appreciate. My reference is to human relations and labour relations, to the services we provide, etc. The best example I can give is from the field in which I work. Our industrial enterprises are out in front in human and labour relations. Shikun Ovdim and the Consumers' Cooperative Movement are doing much in the service of the consumer. We are not always capable of explaining and publicizing these things.

Question: And with regard to the profitability of the Histadrut grouping?

Offer: In this connection, certain things must be clearly understood. We cannot get away from the fact that the market is competitive, and we must adapt to this fact. At the same time, it must be kept in mind that at Koor and Solei Boneh, part of the profits are used to improve the workers' conditions. Consumers' Cooperative Supermarkets and Shikun Ovdim use some of their profits to improve the service given to the customer. We cannot demand services, the raising of wages, including the improvement of fringe benefits, and at the same time a high profit rate. We are devoting profits to an important objective, but we are again not capable of explaining ourselves; we do not know how to go about explaining our objectives. If we do have some thoughts on the subject, they are incomplete, distorted and garbled.

Another point on which we are lagging behind, on which we have failed to explain ourselves: I refer to profit sharing with the workers, but in fact the subject is giving the workers a say in this matter. If the workers share in the profits, they will have a greater work motivation, more goodwill and identification with the job. I hope that greater remuneration will drive the workers to produce more. However, the thing is, up to this point, one-way. At this time, we are talking finance concerns the flat owner directly. Many families, both established and young couples, have doubts

on the subject of acquiring a better, more spacious flat. I do not think that it would have been possible to mount a campaign, without the active participation of Shikun Ovdim. Let us consider the company in Israel. There may be differing opinions on the nature and function of this company. I support the company because I think it has done much, and that its operations are of importance. We were concerned over the question of how to facilitate the purchase of a second house in Israel by Jews living abroad. I read recently that about 20,000 Jewish American families have acquired a second house outside the United States. The countries involved are Spain, Greece, Bermuda, the Bahamas, etc. Only 10 per cent of these Jews bought a house in Israel. And I am not talking about non-Jews who have bought and are continuing to buy flats and houses outside the U.S.A. I believe that, in the same way as almost every family in the U.S.A. has a second car, the idea of a second house, located anywhere in the world, will find acceptance. In a number of years, it should be possible to reach a figure of thousands, and perhaps tens of thou-

increasing labour efficiency, rationalization, or economics.

Question: What do you mean by this?

Offer: We have to continue to tie the worker to the plant, to achieve greater worker cooperation, and in this connection, to use unconventional methods. There are branches in which salary does not figure greatly in the cost of the end product, for example, building and housing construction. This is not the situation in industry and services. Here salary represents 70 per cent or more of the end-product cost. For this reason, worker cooperation cannot be a one-way affair.

Question: I should like to switch now to the subject of housing. Activity in the branch continues to increase; flats are in demand, prices are high. What does Shikun Ovdim have to say in this context, in view of its large share of the building and housing field in Israel?

Offer: I make a clear distinction between housing and building. People usually confuse these two things. In the field of building, that is to say, the actual building of structures, a significant change for the better is felt. We are see-

The employed must maintain their present position in the national economy — Profits are spent on benefits for workers and consumer services — Jews must be encouraged to buy a "second house" in Israel — No large construction project can be mounted without the participation of Shikun Ovdim — We were working on the problem of housing for young couples, before the Black Panthers were heard of — No one profits in building for social purposes — We have no interest in turmoil in the building branch.

ing improvements, innovations, and continuous ameliorations. In this field, the company I head has only an indirect effect. The main influence is wielded by Solei Boneh. But this fact is not significant; we do have an indirect influence through Solei Boneh. I think that Shikun Ovdim's big contribution lies in the further popularization of industrialized building methods. Previously, industrialization had been confined to the cheaper kinds of popular building. We have explained and also demonstrated that industrialized building need not be confined to any given type of construction. In building for those with higher incomes also, we have proved that there is no particular merit in work done by hand; buildings can be constructed from assemblies produced by industrialized building methods. We have given industrialized building a good reputation, and freed it from psychological limitations, restricting it to building for those with limited means.

Interior design and breaking away from routine

Question: In what field does Shikun Ovdim have its greatest influence?

Offer: Our main influence is in the planning interior design, and in getting away from the routine thinking patterns of building contractors, small private builders and big companies. The second area in which we have an important influence concerns the flat owner directly. Many families, both established and young couples, have doubts

The problem of young couples has been solved

Question: Your remarks refer to the United States. What do you have to say about this country? What is Shikun Ovdim's contribution to solving the painful question of housing for young couples?

Offer: Shikun Ovdim has been a pioneer in solving the problem of young couples. It is not just that we have made a worthy contribution to solving the problem; this problem has been solved. There are some who say that actions were taken to solve this problem, only after the demonstrations mounted by the Black Panthers. I wish to state that we came out with a plan for the accelerated construction of housing for young couples, two months before these demonstrations. If we add the period necessary to work up the plans necessary before the announcing of a serious programme, it is not an exaggeration to say that for more than a year previously, we had been occupied seriously and urgently with this painful problem. In fact, we started discussions with the Ministry of Finance, with the Ministry of Housing, the Israel Lands Administration etc., at the end of 1969, and at the end of 1970, we published a detailed programme. I can say with certainty that we have assisted young couples with modest means — I refer to those with means of about IL25,000 — to acquire nice flats. Up to the present, about 20,000 such flats have been built, and of these, 45-50 per cent were built by Shikun Ovdim, and this at a time when we are putting up some 10 per cent of all the housing being built. These two facts are sufficient to prove our respectable contribution to the solution of the young couples' problem.

Nobody is making a profit

Offer: As I say, our contribution to the solution of the problem of housing for young couples is great, and it is perhaps important here to add the following fact: We state and are able to prove that, in construction for young couples, we do not make a profit. In fact, we do not want to make a profit. In these projects, we have to invest our own means in the form of mortgages, etc., to the extent of about IL150 million, this being in addition to the financing contributed by the Ministry of Finance, the Ministry of Housing, banks, and other sources. This shows that only a company of the scope and resources of Shikun Ovdim could undertake such a comprehensive programme, which has the widest possible public and social effects. In every large project, such as South Netanyahu, Ashdod, etc., Shikun Ovdim is the organization that puts in the breath of life. Everyone knows very well that, when there is a need to develop a plan for housing, to occupy a site of 500 or 100 dunams, it cannot be done without Shikun Ovdim.

However, the implementation is not the only important aspect. Planning is also important. My reference here is to the functional qualities of the flats we build, and to the degree to which they meet the requirements of the occupiers. I shall not say that we are excellent — nothing in Israel calls for this word — but we try to do a good job, and to this end we work hard. Only large companies and, of course, the Ministry of Housing in its housing construction projects, get away from the accepted routine ways of working. We never wish to build just any old house — as many private builders do. Only as an exception do they employ an architect. We do not think only about the flat itself, but also about the surroundings — shopping centres, children's play

grounds, gardens and green corners, public offices, etc. An example of this can be seen in housing we have put up in south Tel Aviv. We have noted that worryingly quickly, the south becomes the area populated by those with limited means. Those with higher incomes try to move to the north of the city, that is to say, to the more expensive suburbs. We have done everything possible to stop this trend. In order to have higher class housing in Yad Eliahu, we at first tried to tie Yad Eliahu to Ramat Hen, and we built at a standard that would also permit us to draw to the area those with incomes of intermediate or higher level. We succeeded in these social projects. At the same time, in the north of the city, we do not build large flats only. We also try to build smaller flats suitable for young couples, in order to arrest the unhealthy tendency of stratification by income level, and all that is associated with it.

We have done the same thing in East Jerusalem. I think that in this respect we have done our duty as a public housing company. That is to say, we haven't just built houses in accordance with the special requirements of the future owner, without considering the social and public aspects. The fact that we saw things in a wider perspective involved us in financial commitments. In East Jerusalem we were guided by the principle of integration of various levels of the population. For a whole year, we did not sell even one house. Although it now belongs to the past, it is worth while to mention that we succeeded in breaking the trend of doctors and professors of the Hadassah Hospital living in one area, and young couples of limited means in another. Question: The company which you head has frequently been accused of also building spacious and expensive flats, and some people say that this is not the taste of Shikun Ovdim.

Offer: Eighty per cent of the flats we build are sold at cost price, without profit. That is a proven fact. That does not mean that we are the "good boys," who are willing to forfeit profit. But housing for social welfare cases, deprived families and the like is sometimes sold at prices which do not cover the cost price and expenses. It is therefore natural that we must also build flats which are sold at profitable prices, otherwise the company would not be able to sustain itself. We must also sell large flats, but we do not give mortgages. At the same time, we should not forget that a company like Shikun Ovdim cannot build flats for only one specific level of the population, if only for the sake of its public image. That would cause us serious public and economic damage. I think that building for the well-to-do levels of society should make up for the lack of profit in social building and, at the same time, assure the economic existence of Shikun Ovdim. A public company should be able to offer its customers a choice of various types of flats, and not only one kind for those of limited means. It is also psychologically understandable that the buyer of a flat whose means are limited should prefer to purchase his small and modest flat from a company which has not been marked as the sole builder of flats for the poor.

Question: You are chairman of a committee whose task it is to coordinate building restrictions. Is it true that there is a tendency to slow down the demand for new flats?

Offer: The public does not understand that we talk of a shortage of flats, while in fact there is a surplus. Enough flats are being built for young couples, popular housing, and for people who are transferred from slums. As to bigger flats of

(Continued on next page)

Interview with Avraham Offer

(Continued from previous page)

more than 100 sq.m. — each flat has its own specific function, and we should remember that large and small flats are not built for the same purpose. In this respect, people used to generalize and to blur the picture, which is already not very clear. When there was a temporary shortage in flats for new immigrants, everybody started shouting, but when some 2,000 flats were let for monthly rent, the shortage appeared not to be very serious, and the shouting stopped immediately. On the other hand, we seem to get a recurrence of the situation of 1964/65, when every contractor started building because his competitor did. There is a real danger of a surplus of flats, with all the implications. On the free market this danger already exists.

Question: Who is worried by that? A surplus will bring prices down.

Offer: That is not true. The expenses remain high, and prices will remain stable, even if there is a large surplus. What will happen, however, is that the contractors will go bankrupt. Is that what we want? Is that our aim — to reach a state of bankruptcy and of loss of property and capital? The demand for flats on the free market has decreased by 25%, compared with the boom period. The demand has decreased, but costs rise and go on rising. The contractors must raise their prices, in order not to lose money. The alternating low and high tides in building cause undesirable fluctuations. Who wants a crisis? We do not want a surplus of 7,000 completed but empty flats. The Government cannot buy them, because they are too expensive, and not suitable for young couples or new immigrants. Is it reasonable for there to be a shortage of popular housing on the one hand, and on the other a surplus of luxury flats that cannot be sold? If we restrict building, then labour, building materials and cement will again become available.

Question: Will the private sector be prepared to restrict the scope of building by one third, that is, by approximately 18,000 flats?

Offer: Here I should point out a confusing mistake made by the Central Bureau of Statistics, which has included in the private sector all houses we are building for young couples. This distorts the picture. It is a fact that there is a demand for 30,000 lower priced flats, whereas, in my opinion, 30,000 flats on the free market are far too many. Instead of 30,000 flats, let the free market build only 18,000 spacious flats. Together with those not sold in the past year, this is definitely enough for the free market. Two private contractors will actually reduce their building by about 8,000 flats. The public companies will also restrict their building. There are also private contractors who build "popular" housing. We also know that almost all the flats which are completed are being sold without special difficulty. On the other hand, there is hardly any demand for flats which have not yet been erected, of which only the blueprints have been made. Flats still in the design stage, or in the early stages of construction, are also sold with difficulty. The future flat owner wants to see what he is going to buy. He does not want to buy a pig in a poke, he will buy only on the strength of an architect's drawing.

Question: Is there really willingness to restrict building?

Offer: There certainly is. I am sure that the next statistical survey will show the results of this campaign.

Question: If the building situation really is as you describe it, why was it necessary to import 1,000 mobile homes, and pay considerable sums for them?

Offer: I think that many things that were done in a state of panic were not necessary at all. But, maybe, we can, after all, make some use of these mobile homes. It is always worth while to have a reserve of accommodation for new immigrants.

MONDAY, MAY 28, 1978



"YOUNG COUPLES"

Shikun Ovdim started to build flats, when this couple were still young. Today, Shikun Ovdim is building more flats than any other public or private company.

A young couple buying a Shikun Ovdim flat today will enjoy living in it for very many



years; thousands of Shikun Ovdim flats, built dozens of years ago, are still as good as new. Every Shikun Ovdim flat is built well, with the sense of responsibility and supervision of construction you would expect to get from a company with many years experience and expert knowledge in the construction field.

A flat built by Shikun Ovdim — a home for generations

THE JERUSALEM POST ANNUAL ECONOMIC SUPPLEMENT

PAGE THIRTY-ONE

מכאן ואילך

what has
deep roots
many branches
and is growing
bigger every
year?

Back in 1909, when we first put down roots, our paid up capital was £8,000.

Today, assets are over IL 100 million. Naturally, over the years, company activities altered too.

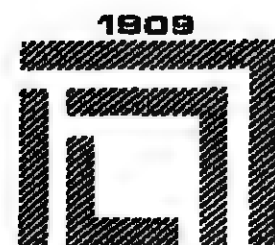
From our original task of land acquisition and development we extended into urban redevelopment and the building of residential, commercial and industrial premises — industrial parks.

With the growth of tourism we diversified yet again, turning to hotel construction, the management and operation of resort hotels and residential apartment hotels.

Five of the country's leading hotels, comprising the Israel Resort Hotels chain are operated by us.

We undertake joint ventures with other companies and with individual investors.

In fact, we do so much with others, isn't it probable we could do something with you?



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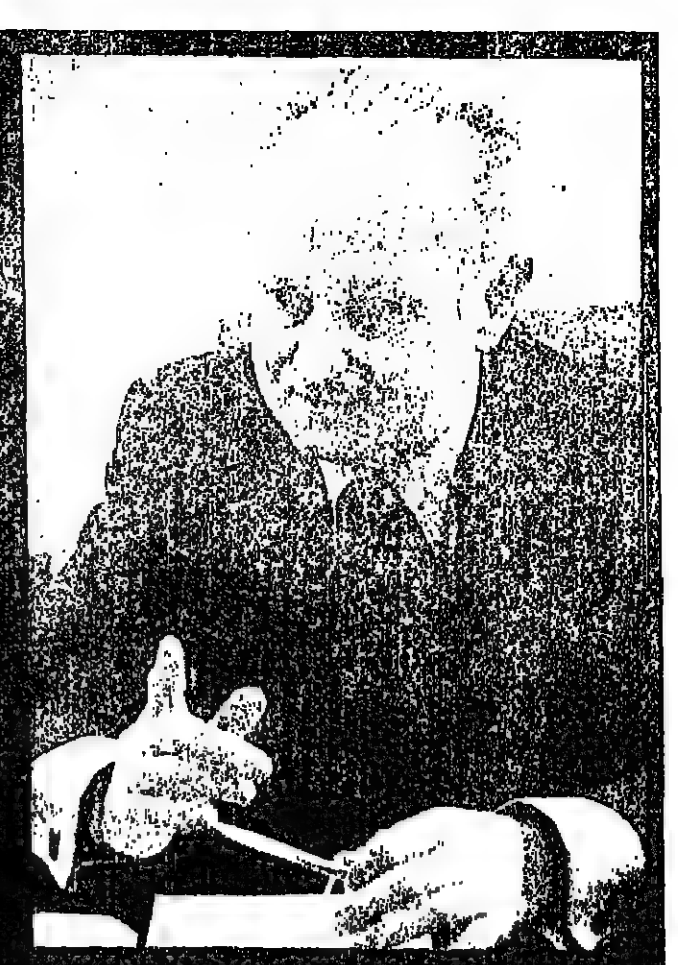
URBAN DEVELOPMENT

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Igniting
the sparks of
inflation—and
controlling
the flames

The price of investment capital should reflect the market, not artificial incentives, if money and labour are to be channelled to the most fruitful paths.
MOSHE SANBAR,
the Governor of the Bank of Israel, tells David Krivine.



THERE is such a thing as "Zionist economics" — and no less a person than Moshe Sanbar, Governor of the Bank of Israel, advocates it.

The formula contains an apparent contradiction. Sanbar explains: "We create inflation in the long term, and break our heads on trying to combat it in the short term." Perhaps the system should be labelled Jewish, or even Irish, economics.

Yet it is not so crazy as it sounds. In the long term, the overriding objective (as Finance Minister Sapir maintains) is maximum growth, that is, maximum investment, because Israel has so many necessary expenditures to meet. But when all the resources of a State are deployed to the limit, that generates wage and price inflation.

How to offset this in the short term, without reducing the growth-rate? Mr. Sanbar is a strong and persistent proponent of selectivity — not by individuals or committees, but by the operation of market forces.

He has been tussling for a long time with Minister of Commerce and Industry Haim Bar-Lev over the price of directed credit. Exporters get cheap working capital at 6 per cent, and industrialists cheap development loans at 9-11 per cent, when the price of money on Israel's free market is 18 per cent and more. Sanbar wants these borrowers to pay something nearer the true market rate.

The explanation he gives reveals his whole philosophy in economic affairs. First of all, 18 per cent seems a lot, but in terms of real purchasing power it is not so very much. Three years ago the going interest-rate was 13½ per cent, and prices rose by 3.3 per cent in that year, so the real interest at that time was 10 per cent. Today prices have risen (during the last twelve months) by 15.6 per cent, therefore an interest-rate of 18.5 per cent comes in real terms to only three per cent.

Cheap capital

What point is he making? That when all a firm's purchases and all its sales are adjusted to the price barometer, there is no reason to treat capital differently. The real price of an 11 per cent loan today comes to minus 7.5 per cent, which means that in actual fact, the lender is paying interest to the borrower, and not the other way round. Such a phoney or subsidised pricing system creates distortions.

Chiefly, it promotes inflation, because cheap capital cheapens investment. There are only so many resources available for investment at the present moment. Pumping in more money simply fosters price inflation. The solution is to sell capital at something like its real price, and then investment will be narrowed to those projects which are so well-conceived and profitable that their sponsors can afford to pay the cost.

"And that is where selection comes in," Sanbar explains. The decision is made not by Government officials, but by the investor himself, who decides whether, at a price of 18 per cent for capital, his placement is worth making or not.

Sanbar sums up: "The golden mean between maximum growth and optimal stability is found by putting the accent on efficiency and competition."

Selectivity of this kind, through tightened credit, is the best instrument against inflation. He favours liberalization of the whole economy, reduction of controls, lowered tariffs. He dislikes all forms of subsidisation, whether they take the form of cheap capital or high protective tariffs.

Market is the world

"Our market is no longer just Israel, it is the world," he says. "Once we used to build small factories to supply internal demand only. Today we must build large plants that can compete with anybody and sell anywhere."

Projects that survive his test are apt to be technology-intensive. Such enterprises will be hungry for professional and technical manpower. That closes another circle, he says. For the flow of immigration now comprises a high proportion of educated and qualified people. A proper selection of investment projects will bring to the surface the type of venture that usefully absorbs this kind of "sophisticated" immigration. Altogether, we must invest in up-grading our human resources, he believes. "The Israeli worker is ambitious, he is not content to mark time. He wants more money. We very much want him to get it, by investing in his education and thus increasing his value as a factor of production."

We asked about the place of the administered areas in Israel's economy. Sanbar says that we need the Arab labourers who sit present commuted to work inside the Israel economy, and they need the work. But we should not

step up the volume of migrant labour beyond present levels. All future population increases (including workers released from farming and other sectors, thanks to increased productivity) should be absorbed inside the West Bank and the Gaza Strip.

This requires investment in those areas, but it should be done by the Arabs themselves. They can supply it because they are earning money (and acquiring know-how) from their work with the Israelis. Good incomes create a booming market in the Arab towns and villages. The Israeli market is available to them also.

"And Israeli capital too?" "If they ask for it. We do not want to become 'ugly Israelis,' shoving our noses unasked into other people's affairs."

Moshe Sanbar is young for his post (he is not yet fifty). His meteoric rise was due partly to

an astonishing fertility in ideas. He has proposed, for example, a solution to the world's gold crisis, which is likely to be considered quite seriously in the world's councils.

The idea is impressive simple. Gold prices are booming, although \$40,000m. of the precious commodity is locked in the central banks, which are not permitted to sell it for more than \$42 an ounce — and therefore do not sell it at all (seeing that the free-market price today tops \$100).

Sanbar suggests that the International Monetary Fund be free to buy gold from the central banks at close to the free-market price, for the express purpose of re-selling it to the general public — should this be necessary in order to dampen inflation in gold prices. In other words central banks will still be prevented from playing the gold

market, but the IMF should be allowed to, operating as a kind of world central bank.

It would sell gold for dollars (or any other weakened currency) when the gold price soars, thus strengthening the purchased currency, much as a central bank does this in its open market operations. The IMF would pay the banks for their gold with SDR's (Special Drawing Rights, the new international currency), and gold would be gradually demonetised, becoming a tradeable commodity like any other.

Sanbar comments that the existing system of cooperation between central banks under the IMF is good for dealing with fluctuations in balance of payments between different countries. But his proposal would cope with speculative capital movements that are not at present subject to control, and damage the international currency system.



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PRIME MINISTER'S THIRD ECONOMIC CONFERENCE

and, as the agency entrusted with the local tourist arrangements, warmly welcomes this most important milestone in the further strengthening of Israel's economy.

MONDAY, MAY 28, 1973

THE JERUSALEM POST ANNUAL ECONOMIC SUPPLEMENT

PAGE THIRTY-THREE

مركز من الدوحة

TOURISM: A NEW EMPHASIS

Seventy per cent of all the tourists who have visited Israel have come here in the last eight years — and the upward trend appears to be continuing. The development of more facilities for these tourists, and regional development plans, will be discussed by a special 130-member Economic Conference committee. ISRAEL TSURIEL, Deputy Director-General of the Ministry of Tourism, talks about trends in the industry to GEORGE LEONOF.

celebrate with

ISRAEL
25th ANNIVERSARY
1973

The 25th Anniversary promotions, by the Tourism Ministry, included billboards like this one in New York.

TOURISM development and investment will be the subject for discussion by a special committee at the Economic Conference.

The discussions will be on a new basis, reflecting the considerable expansion of Israel's tourist facilities, according to Israel Tsurriel, Deputy Director-General of the Tourist Ministry. The committee will not deal with individual projects, as in the past, but will consider regional development plans.

More than 130 delegates to the conference will take part

in the work of the committee, no less than 80 of them guests from abroad. This year the emphasis will not be on hotel construction, and the Tourist Ministry will put before the delegates broad plans outlining the infrastructure of regional developments.

On-site inspections

The first day and a half of the committee's work will be devoted to discussion of the projects. The last day will be spent in on-the-spot inspections of the sites involved. Mr. Tsurriel said this has been arranged so that the delegates could personally

visit any area that interested them to see what has already been done, and to study conditions of investment.

Mr. Tsurriel said that the conference would find in Israel a solidly based and fast growing tourist industry. Since its establishment 25 years ago, the country has played host to more than five million tourists — of which 3.5 million came in the last eight years.

The year 1972 showed an all-time record of 728,000 tourists, an impressive increase of 11 per cent over the previous year but a particularly imposing achievement in view of the fact

that the 1971 figure represented a 50 per cent increase over that of 1970.

The 212,000 tourists to Israel in the first four months this year represent a slight drop compared to the corresponding figure for 1972. But the April total of 83,000 was the best ever for this month. Mr. Tsurriel conceded that this was partly because both Passover and Easter were celebrated in that month, but noted that this had occurred in previous years.

Foreign currency earned by tourism in 1972 totalled \$212.7m., excluding the operations of the national sea and air carriers, Zim

and El Al respectively. This represents an increase of almost 20 per cent over the previous year, and the upward trend is expected to continue. Revenue in the first two months of this year was over \$30.3m., 6.6 per cent more than the similar period last year.

Too early

In general, it was too early to forecast the extent of tourist traffic in the coming months, particularly as there appears to be a general tendency now toward late bookings, especially with regard to Israel. Mr. Tsurriel said.

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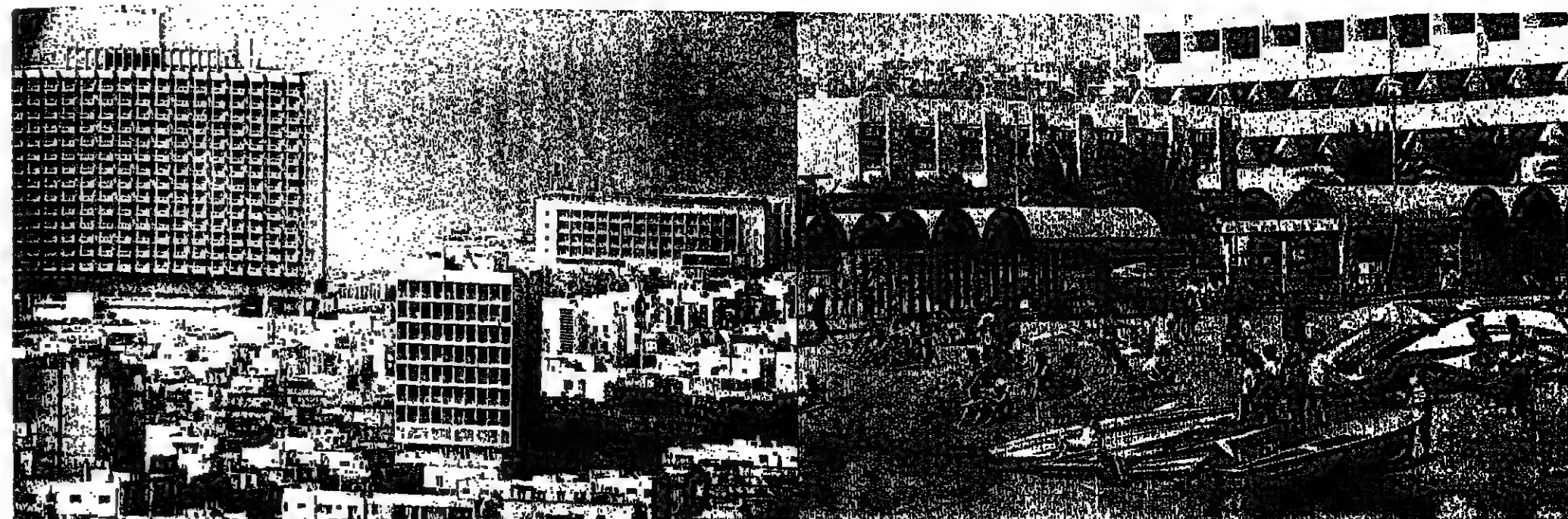


Tourists at the Temple Mount. A higher ratio of non-Jewish tourists this year.



Crowded scene at Lod Airport, where April's figures set monthly record.

ON REGIONAL DEVELOPMENT



Hotel development on the seafloor in Tel Aviv, which remains in the focus of tourism planning, and at Eilat, where available hotel space soon will be tripled.

(Continued from previous page)

Tsurriel said there could be a number of reasons for this. Tourist operators, however, report that with regard to Israel the main reason for late bookings was concern over the security situation in the region.

Mr. Tsurriel, who would not be drawn into a prognosis for the summer period, said much depends on what the peak months of July and August will show. "On the average, these two months account for fully one-quarter of a year's total traffic," he said.

Trends

Nevertheless, the first four months of the year showed some interesting trends. Europe's share in the number of tourists to Israel rose to 48.6 per cent, compared to 48.5 per cent of the total in the corresponding period last year. North America, on the other hand, provided 36.8 per cent, compared with 40.4 per cent in 1971.

"The gap will narrow after the summer influx, when the American traffic is heaviest," Mr. Tsurriel was certain, "but the fact remains that the growth rate of tourism from Europe continues to exceed that from North America. One aspect of this is the increase in the number of pilgrims and other Christian tourists from Europe, which has always accounted for a higher ratio of non-Jewish tourists."

He also pointed to the growing number of cruise ships visiting Israel, with mostly Christian ex-cursionists. No less than 43 such vessels called at either Ashdod or Haifa in the first four months this year. The corresponding period last year saw 28 ships.

Fare problems

Referring to the growing competition from Europe and North Africa in autumn and winter package tours, Mr. Tsurriel said Israel must be prepared to offer more attractive terms, particularly with regard to fares, which constitute a major part of what a package costs.

"The winter tourist traffic is vitally important," he stressed. "In fact, we consider one tourist in winter to be worth two in summer, and the Ministry is now cooperating with hotels, transportation companies and other tourist organizations in preparing specially reduced package tour tariffs for the period from mid-October to mid-March."

On the hotel front, extensive building activity is continuing. "At the end of 1972, we had 360 recommended tourist hotels with a total of 18,000 rooms," Mr.

Tsurriel notes. "Today there are over 10,000 new hotel rooms in the process of construction, and another 12,719 in the planning stage."

Tel Aviv and Jerusalem remain the main centres of hotel construction, but the development of Eilat is more conspicuous in relative terms. At the end of 1972 the Red Sea resort's recommended hotels had a total of 780 rooms. Under construction at present are 1,520 rooms, with a further 900 in the planning stage.

He said that the Ministry and El Al are trying to develop traffic to Eilat by a special publicity campaign, including invitations to foreign travel agents, news correspondents and television teams. In addition, Arkia, the domestic airline, is to offer reduced rates to Eilat to visitors arriving in Israel on package tours.

Referring to future targets, Mr. Tsurriel said the Ministry has set its sights for a million tourists in 1975, and double that figure a decade later.

Looking to 1985

The master plan for tourism now being drafted should be completed by the end of 1974. It extends to 1985 and deals with every aspect of the tourist industry, including shopping facilities and entertainment.

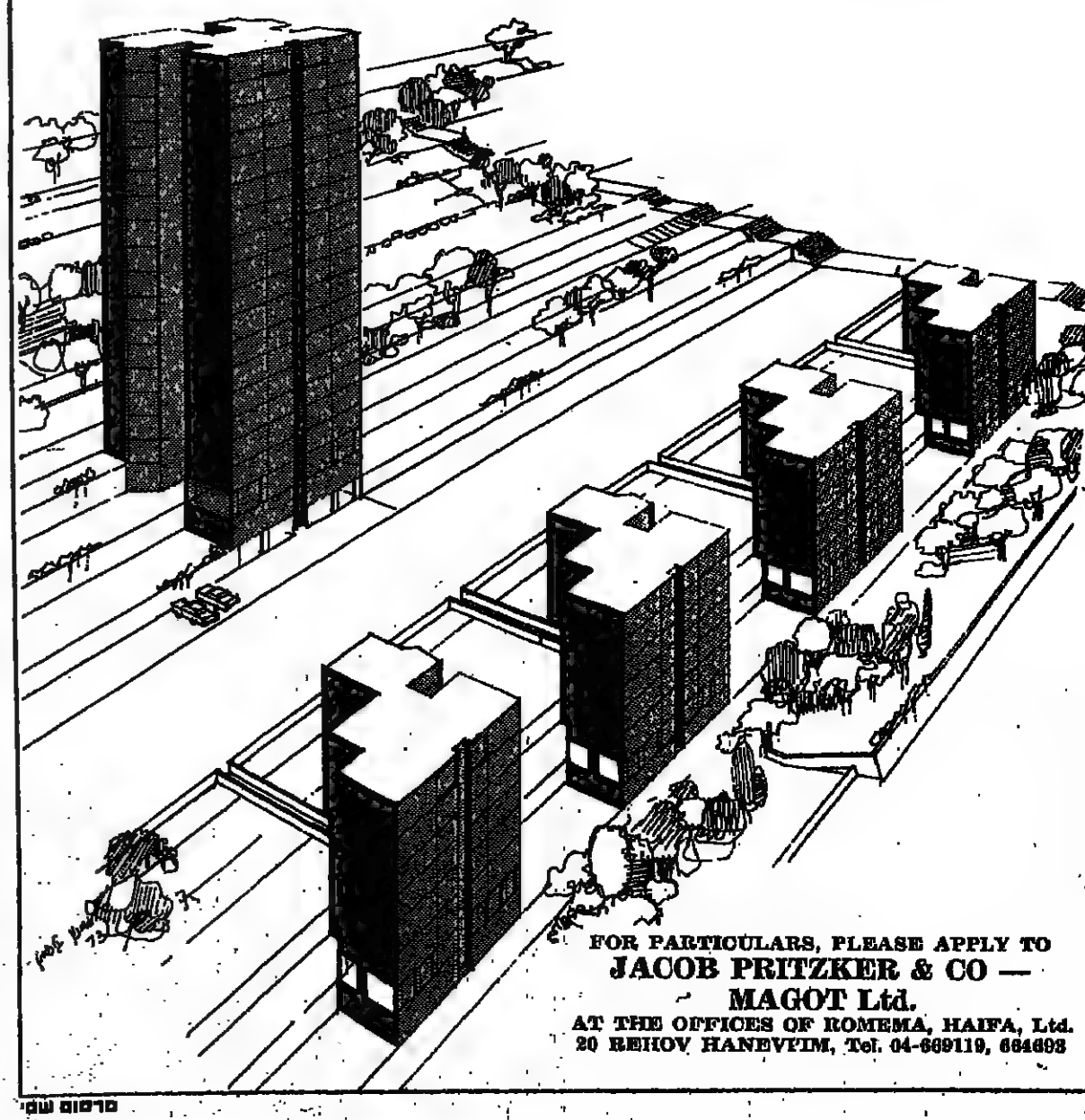
Turning to the question of tourist services, Mr. Tsurriel said the Ministry and various branches of the tourist industry are persevering in efforts to improve standards in this field. He mentioned the Ministry's determined action against operators who fail to provide services corresponding to the price charged, and pointed to the case of the Pan-American Hotel. The hotel, on the Dead Sea, was ordered to close after the Ministry found the facilities and services it offered were not up to standard. The Ministry's order was upheld by the court.

Study planned

Mr. Tsurriel disclosed that a special public committee, of which he is chairman, has just completed a study of tourists' complaints about services, made over the last two years. Basing themselves on the study, the group has submitted a number of recommendations to the Minister of Tourism, Moshe Koi, with a view of correcting shortcomings. The recommendations were made unanimously by the committee, whose other members include S. Federman, president of the Israel Hotels Association; S. Scharf, chairman of the Israel Travel Agents Association, and Y. Schrem, Deputy Director-General (Commerce) of El Al.

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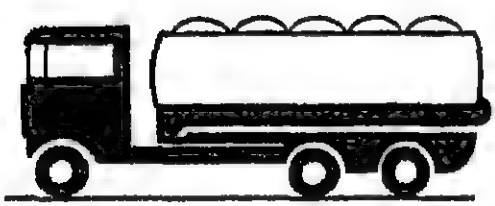
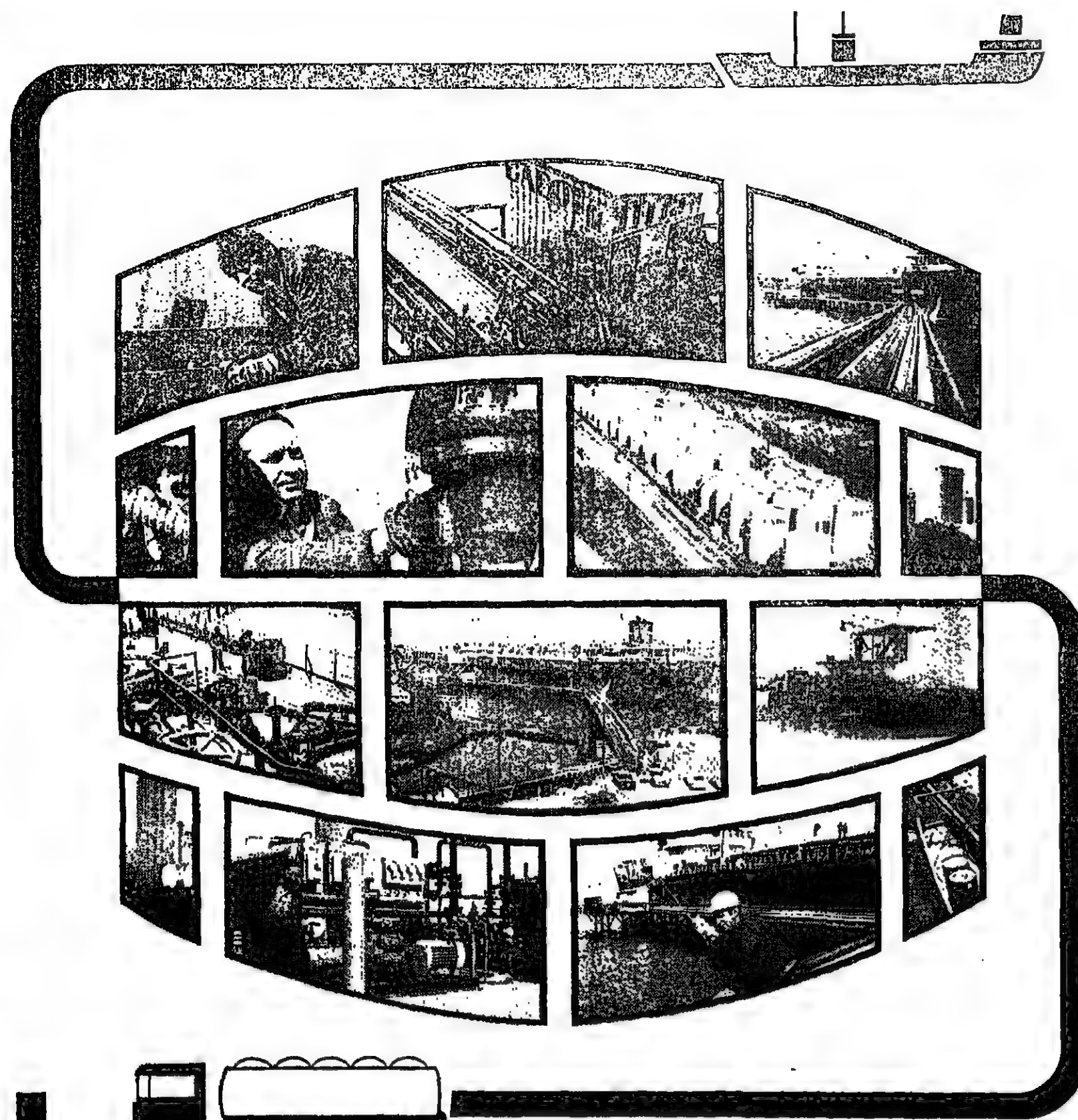


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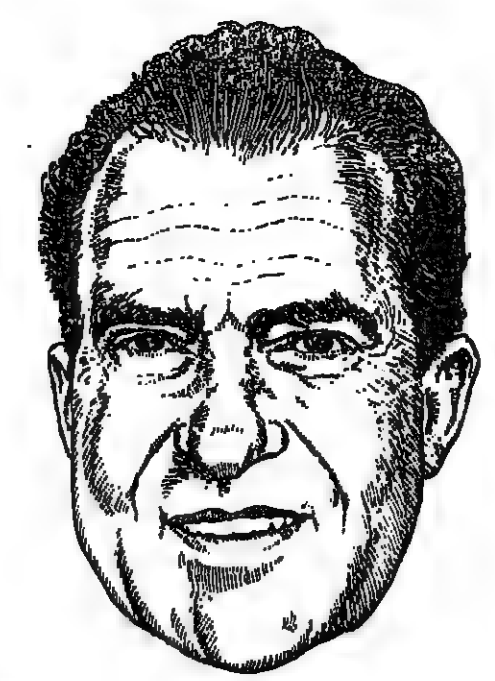
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ISRAEL AND THE NIXON TRADE POLICY

THE public outcry leading to Moscow's apparent relaxation of the "diploma tax" as part of an effort to achieve most-favored-nation status in trade with the United States, has diverted attention from other aspects of world trade policy which have great importance for Israel.

In her efforts to build a sound export economy, Israel hopes this year to achieve agreement for a free trade area with the European Economic Community. And it wants other rich countries to grant preferential entry for Israel's industrial products, together with those of other developing countries.

Even before the United Kingdom entered the Common Market, Israel had pressed for "association status." This, in effect, would have meant free movement of goods between Israel and the Community. Last year, the UK, Denmark and Ireland joined the Common Market, adding to the importance of Israel's association with the expanded Community, which now accounts for 50 per cent of Israel's imports and exports.

Negotiations were opened on a Community proposal for free trade area status on industrial goods between the Community and Israel and between the Community and other countries of the Mediterranean Basin, starting with Spain, Morocco and Tunisia. Under this proposal, customs duties on industrial products from Israel (Spain, etc.) would be gradually reduced so that from 1977 they would enter duty-free.

This means Israel would be some part of a market of 253 million people, as compared to the three million that investors and industrialists see today.

On her part, Israel would have to reduce import tariffs on goods coming from the Community, in three stages: one group by 1977, a second by 1980, and the remainder, except perhaps for some special exceptions, by 1985. Negotiations would settle whether

President Nixon's proposals for expanding world trade generally may prevent or delay Israel's aspirations for special treatment necessary to her development, writes ISRAEL GAL-EDD.

this timetable was realistic and whether some adjustments might not be necessary to allow longer periods or special arrangements for more sensitive products.

An agreement of this kind, to be reached — hopefully — this year, will accomplish a number of things. It will relieve Israel's anxiety over additional damage that may be caused to her industrial products by the UK's entry into the Community. It will facilitate export of Israeli goods to the Community and encourage investors to take advantage of this exciting opportunity. And, it will create a challenge to Israeli industry to meet international competition.

Preferential pact

An essential factor is that this is a preferential arrangement accorded Israel and a small number of other countries in the Mediterranean Basin. At the same time, Israel will give the EEC a preferential status not accorded other countries.

Gatt (General Agreement on Tariffs and Trade), which governs the rules for international trade in the free world, permits this preferential arrangement as an exception to the general principle of equality in international trade.

What Washington and Moscow are discussing is the grant to the USSR, which is not a Gatt member, of entry terms to the U.S. equal to those granted Gatt members. In other words, most-favored-nation status. Israel and the Common Market are talking about preferential entry terms to groups of countries who

In his message to Congress of April 10, presenting the Bill, President Nixon asked for authority to reduce U.S. tariff and other barriers and so encourage a similar reduction on the part of the Common Market.

In his message, Mr. Nixon proposed that the U.S. join with other developed countries, including Japan and the members of the EEC, to help "improve the access of poorer nations to the markets of developed countries. Under this arrangement, certain products of developing nations would benefit from preferential treatment for a ten-year period... certain import-sensitive products such as textiles, footwear, watches and certain steel products would be excluded."

Developing country

The EEC, Japan, Australia, Canada and the Scandinavian countries have already announced their willingness to introduce a system of preferences to products coming from developing countries. Mr. Nixon's request is that the U.S. should do likewise. All those countries (other than the EEC, which has entered negotiations with Israel for a special overall arrangement) have notified Israel that she too can be considered a developing country for this purpose.

It should be kept in mind that these preferences are granted unilaterally by the developed countries, that they are temporary, limited by quotas, and subject to withdrawal if industry in the developed countries becomes threatened. None the less their introduction is of great importance to the developing countries: in the negotiations for tariff reductions between the great countries, as Mr. Nixon now again proposes, developing countries need not themselves make concessions, but will benefit automatically from any overall reductions made.

Where then is the catch for Israel? In his statement to Congress, Mr. Nixon goes on to say:

"The United States would grant such tariff preferences on the basis of international fair play. We would take into account the actions of other preference-granting countries and we would not grant preferences to countries which discriminate against our products in favour of goods from other industrialized nations unless those countries agreed to end such discrimination."

Now Israel is negotiating an agreement that will give Common Market goods preference over those coming from other countries, including the United States. Under Mr. Nixon's proposal, countries which make this sort of agreement will not be eligible for tariff preferences granted to developing countries.

After Europe, the U.S. is Israel's largest customer, taking 20 per cent of her exports. Were this the only problem, it would mean Israel would have to consider whether the close association with the Common Market justified giving up the preferences offered developing countries by the U.S. (Incidentally, the other great trading countries have not insisted on this condition, and have included Israel in their schemes for encouraging export potential of developing countries.) However, this is not the only question raised by Mr. Nixon's initiative for general overall negotiations and his opposition to specified preferential arrangements.

U.K. suggestion

His proposal has found an echo in the United Kingdom, whose representative at the EEC has suggested the Community reconsider offers to expand specialized arrangements in the Mediterranean Basin. If, they contend, tariffs are reduced by half as a result of overall negotiations between the U.S. and the Community, the problem of countries outside the Community will not

(Continued on page 38)

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Israel and the Nixon trade policy

(Continued from page 37)

be so severe. Thus, in the higher echelons of the Community, the desire of Israel and some countries of the Community for specialized arrangements would take second place to an overall arrangement between the major powers. What is not clear in Britain's thinking is why the U.S. should not be concerned about free movement of Community goods into the U.K., Denmark and Ireland and vice versa, all this on preferential terms not granted to the U.S., but should be worried about a similar arrangement when applied to trade between the Community and Israel, which is infinitely smaller.

Not new problem

This problem of what is good for the rich established trading powers being good for the developing countries is not new to Gatt. The developing countries have always contended that what is good for the major powers may also be good for them. But that it is not enough. It was this contention which forced the developed countries in Gatt to abandon the principle of pure equality in favour of a system giving special help to the infant export industries of the developing countries. It is now accepted that this new system is no less "fair" than the previous one which assumed that all were "equal." It may be true that major international negotiations will reduce tariffs over a period not yet agreed upon, by an amount still to be negotiated, and that this may lead to an expansion of international trade and to a solution of the world's commercial and monetary problems. But this is far different from a special situation for Israel vis-a-vis Europe, which has clearly defined challenges and opportunities. If Israel's main economic purpose is to attract local and foreign investors to develop an export-competitive economy, the special arrangement with the Common Market is clearly more advantageous than a non-preferential system; indeed it is considered a necessity.

Israel will no doubt be watching carefully to see that her special interests are not swamped in the overall major decisions being considered between the U.S. and the Common Market. She feels her claims justified since Israel's imports from the U.S. and the Common Market at one and a half billion dollars in 1972 were almost double her exports to those countries of \$800 million — this imbalance being largely due to Israel's development needs.

Tax changes

This is not all. President Nixon also proposes a change in taxation on foreign profits of American businessmen. At present no tax is paid on income of a U.S.-owned corporation overseas unless the corporation declares a dividend out of its profits. President Nixon, in his new Bill, gives notice as follows:

"A number of foreign countries presently grant major tax inducements such as extended 'holidays' from local taxes in order to attract investment from outside their borders. To curb such practices I will ask Congress to amend our tax laws so that earnings from new American investments which take advantage of such incentives will be taxed by the United States at the time they are earned even though the earnings are not returned to this country. The only exception to this provision would come in cases where a bilateral tax treaty provided for such an exception under mutually advantageous conditions."

It is mostly the developing

countries, desirous of attracting new investors, that grant such tax holidays. A cost-benefit analysis of these incentives to the developing countries is difficult to make, and there are people who contend they cost more than they are worth but there is no doubt that investors, and particularly foreign investors, like them. All the major countries other than the U.S. have accepted this as an understandable practice in the developing countries; and in treaties for the prevention of double taxation all countries other than the U.S. have accepted what is called the "tax sparing" principle.

This means that when the United Kingdom or France or Germany or Italy or Sweden or many others give credit to a resident when calculating his tax on foreign income for tax paid abroad, these countries will give credit for tax forgiven abroad, where the tax is forgiven under the provisions of a law designed to attract and encourage foreign investment.

In Israel's case, a company own-

ing an "approved enterprise" pays 33 per cent Corporation Tax, while a non-approved company pays 48 per cent, the reduced rate applying for five years. Briefly, the "tax sparing" principle would mean that a non-resident shareholder in (owner of) the approved company, who has to pay tax in his country of residence on income from the company, will be treated as if 46 per cent tax had been paid. The U.S. has never agreed to this principle on the grounds that it imposes an inequality between sources of income and has collected from the American taxpayer the 13 per cent benefit he was given by Israel.

New proposal

This is not the place to detail arguments for and against equality and inequality in taxation, but all tax systems grant special concessions for what are considered important social or economic objectives. It is clear that Mr. Nixon is proposing an end to non-interference in the tax legislations of foreign coun-

tries; there may now be introduced a provision which says that if the foreign country has granted special tax rates, the U.S. will impose a different tax system on investors taking advantage of these overseas benefits. This is new. It may be understood against the background of an attempt to prevent evasion of U.S. tax, but it will lead to a whitening down of the attractions of investing in developing countries by U.S. corporations. If the purpose is to prevent evasion of U.S. tax from what are called "tax haven" arrangements, the President's proposals seem to punish the innocent with the guilty.

Mr. Nixon made no mention of exempting developing countries from the operation of this provision; nor is it clear whether the U.S. is prepared to agree to bilateral treaties under which, in effect, developing countries could continue with that policy which seems to best serve their interests. All that can be said is that the President seems to have been

persuaded by his advisers to move in a direction which could well harm the development of developing countries in their efforts to attract U.S. investment. All of this — both on the trade and the investment side — is obviously done with the best of intentions on the part of the U.S. and its President. Israel and other developing countries will have to explain to the U.S. and the Community the implications of the policies proposed and see to it that their interests, the interests of the developing countries, small as they may be in world trade, but vital as they are to themselves, are not forgotten.

Mr. Nixon's visit to Brussels in October to meet the Commission of the European Economic Community may be an opportunity for the U.S. again to show its understanding and continuing support of these interests.

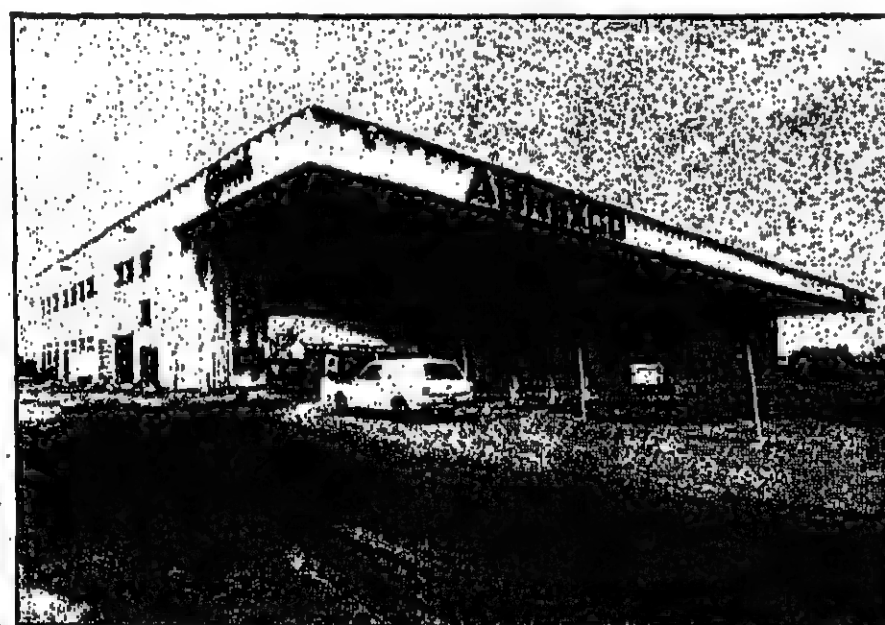
The author is a Lecturer in International Trade at the Hebrew University and the Director of the World Institute in Jerusalem. He formerly represented Israel in negotiations with the Common Market.

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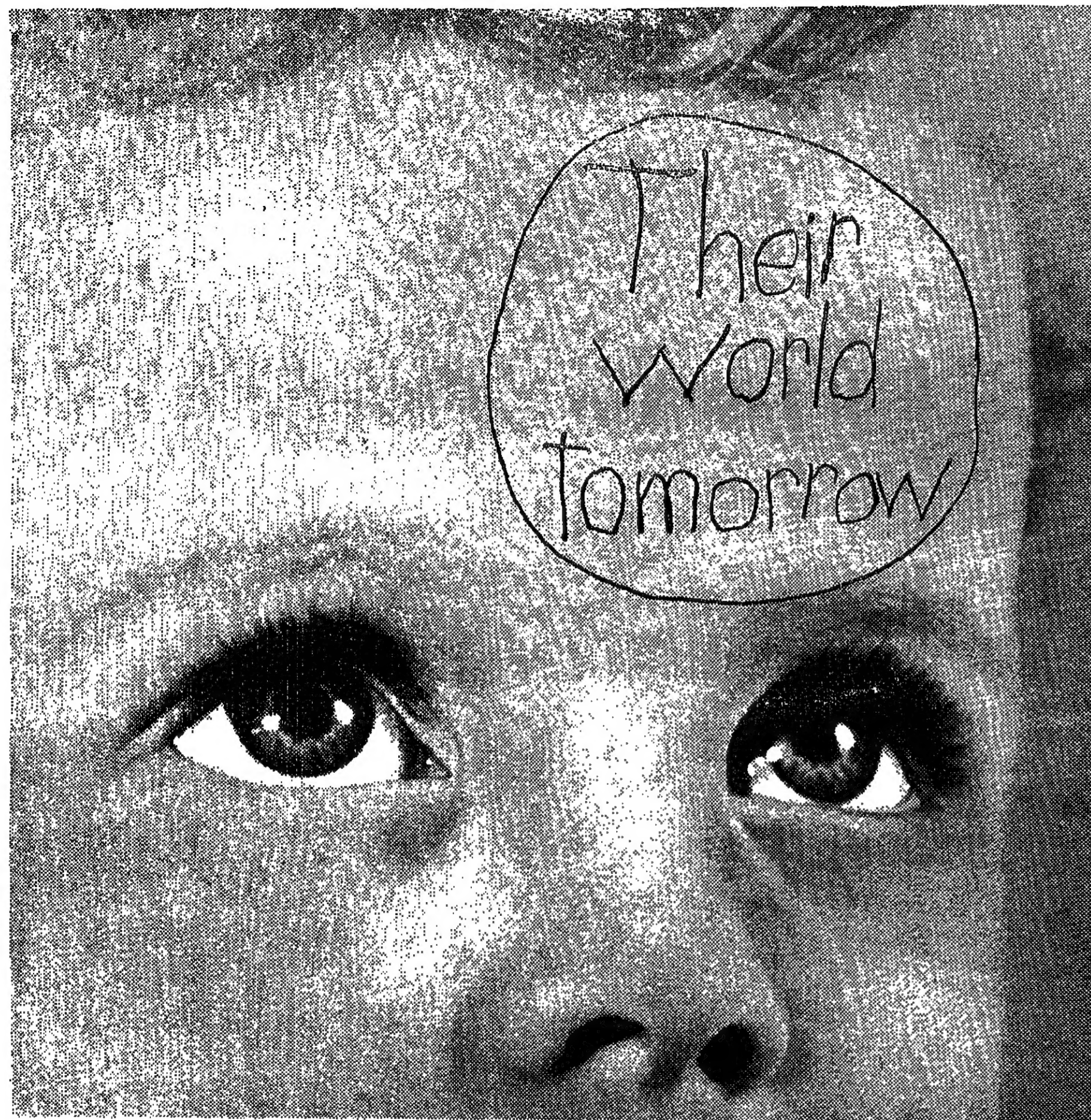
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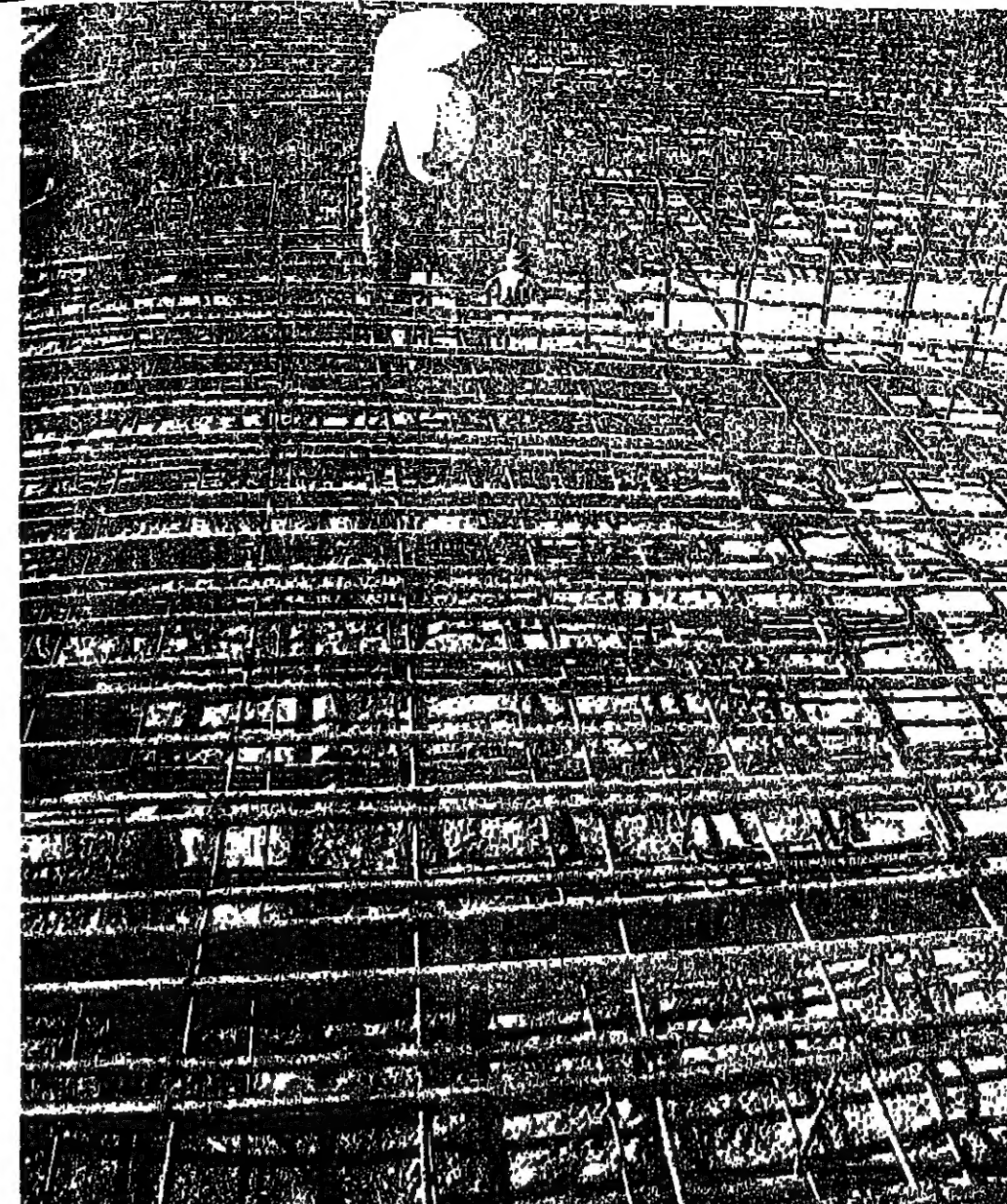
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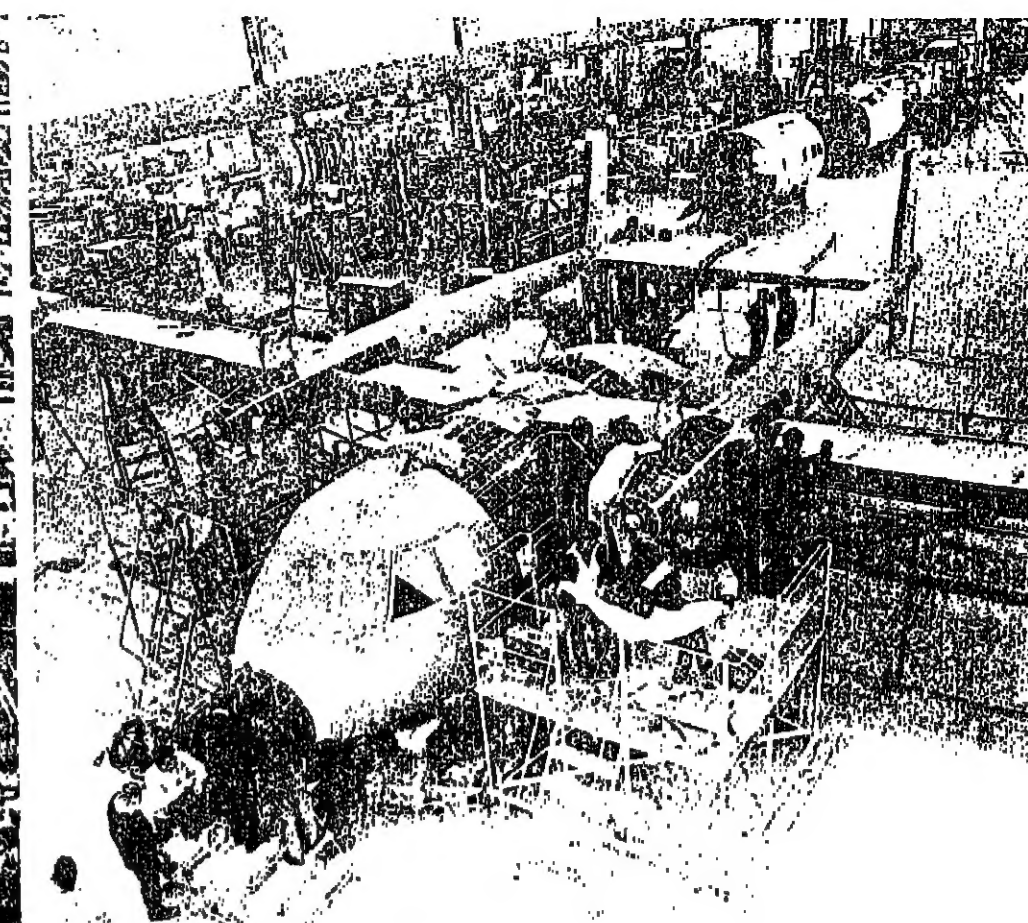
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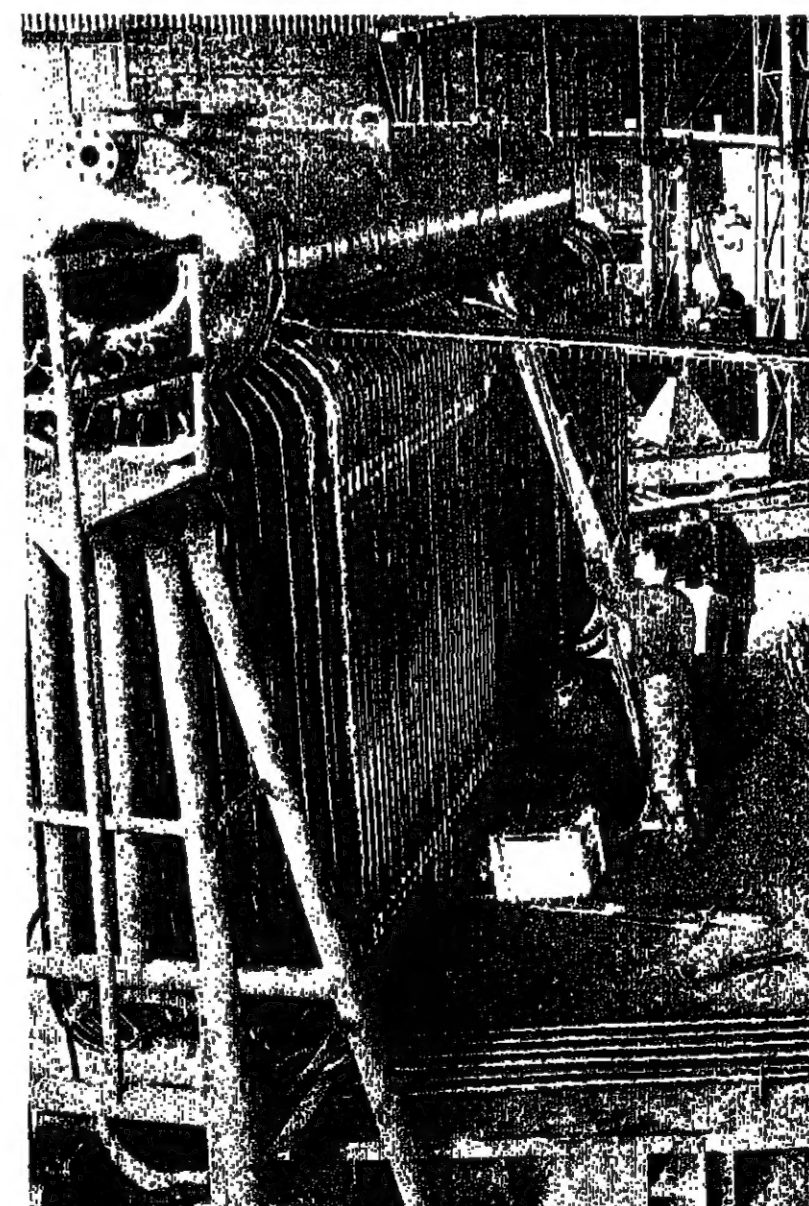


Construction worker puts finishing touches on reinforcing steel bars for a concrete floor of a pedestrian underpass in Tel Aviv. (Shalom Bar-Tal)

Metal industry's revolution



Israel Aviation Industries is one of Israel's leading companies based in metals... (above) part of the Arava production line. (IAI photo)



A giant package boiler being assembled at Mifalei Matehet Negev Ltd., Beersheva.

By AHARON SITTNER
Jerusalem Post Reporter

FOR Israel's metal and metal products industries, the turning point came right after the Six Day War. Before that, the profile of these industries looked something like this: a large number of small workshops filling custom orders; a string of assembly plants with no apparent outlook for growth; and metal processors and manufacturers serving a local market at a high price in foreign currency outlays.

Production runs were short. Industrial technology, compared with that of other rapidly developing countries, was wanting. Research-and-development schemes were something managers read about in trade publications, but were almost non-existent here.

The actual turn around came when substantial orders from defence procurement agencies began pouring in. These orders spurred metal manufacturers on to more sophisticated methods of production. More and more effort went into research and development.

Today, even as manufacturers are learning to become less dependent on defence orders, larger investments are being made in plants and equipment. Know-how agreements are being entered into with foreign firms. Israel companies are attaining international standards of quality and the country's university-based research institutions have been recruited as active partners in the ranks of the metal industries.

According to Amnon Altman, deputy director of the Commerce and Industry Ministry's metals and electronics division, metal companies' output is rising at the rate of 11 to 13 per cent annually. Export figures are even more impressive — an annual increase of between 20 and 25 per cent. Exports, he says, have tripled in the past five years.

He also cited a recent study that showed current capital investment in metals comprised

more than a quarter of the total capital investment in Israel industry.

Israel's metal industries are classified according to four branches: basic metals (casting, precision casting and extruding); metal products (finished and semi-finished goods); machinery and industrial equipment; and transportation and aviation equipment and spare parts (automobile and truck assembly and airplane, bus and truck body building.)

The tables below offer a picture of how these four branches have grown — and are expected to grow:

OUTPUT (in ILm.)

	1960	1965	1971	1976*	1981*
Basic metals	150	318	435	700	1,020
Metal products	463	789	1,853	3,040	4,640
Machinery & industrial equipment	229	409	540	920	1,490
Transportation & aviation equipment	216	353	971	1,830	2,735
Total	1,058	1,869	3,799	6,490	9,885
* Estimated					

EXPORTS (in \$m.)

	1960	1965	1971	1976*	1981*
Basic metals	4.1	3.4	18.3	12	19
Metal products	5.9	12.4	44.7	115	220
Machinery & industrial equipment	1.7	2.5	9.2	20	40
Transportation & aviation equipment	4.1	1.1	14	44	106
Total	13.1	19.4	76.2	191	385
* Estimated					

EMPLOYEES

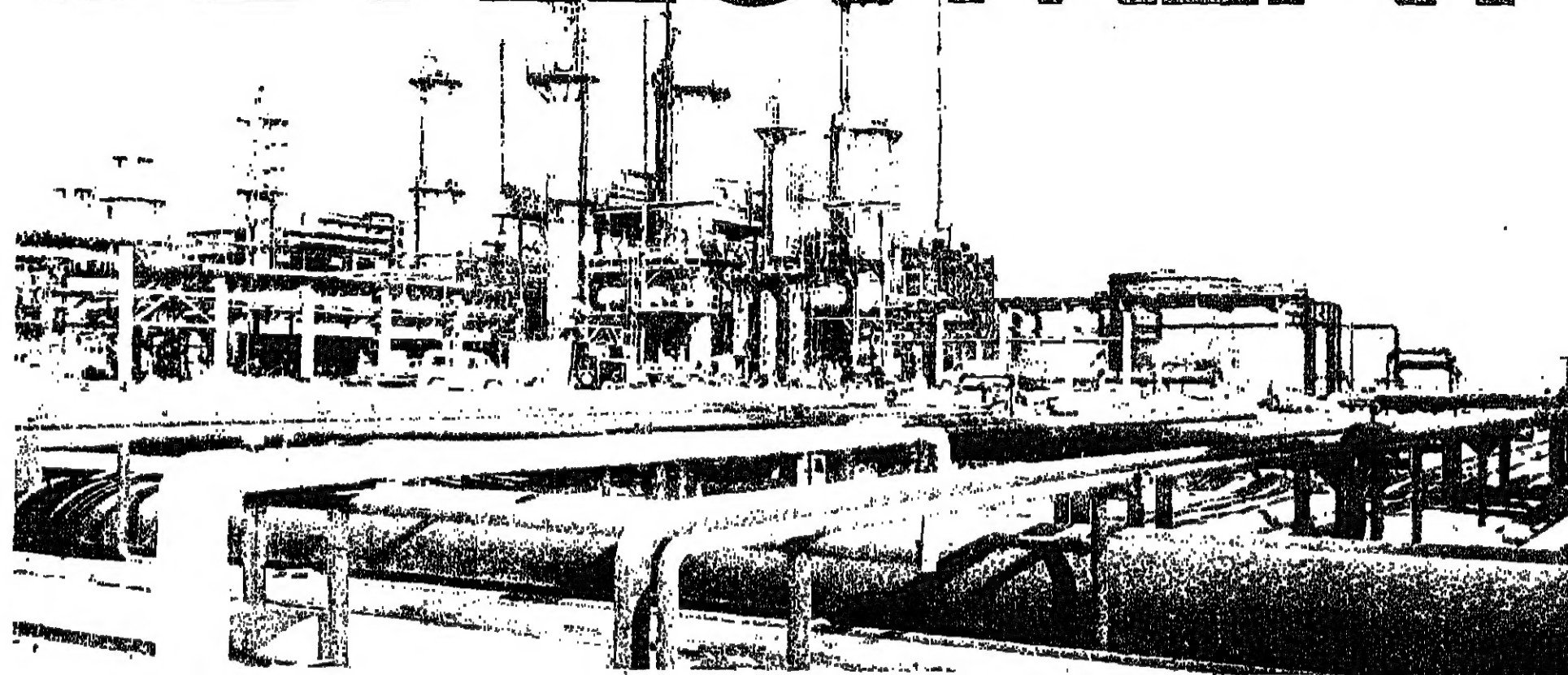
	1960	1965	1971	1976*	1981*
Basic metals	4,241	4,913	5,550	6,700	7,700
Metal products	20,224	27,790	39,400	46,600	53,000
Machinery & industrial equipment	5,887	8,832	11,200	13,700	16,200
Transportation & aviation equipment	7,030	11,000	20,150	26,300	29,000
Total	37,382	52,535	76,300	93,300	105,900
* Estimated					

INVESTMENT (in ILm.)

	1963 to 1968	1972 to 1976*	1977*
Basic metals	86	295	595
Metal products	176	740	1,050
Machinery & industrial equipment	76	286	405
Transportation & aviation equipment	191	445	675
Total	529	1,745	2,425
* Estimated			

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Challenges of the next 25 years

DESPITE the unique strain of immigration and national defence, the economic progress made by the State of Israel during the first 25 years of its existence has been astounding. When considering the possibility of making a forecast for the future, it is well to remember that in 1948 most of the "wise men" in other countries prophesied that Israel could not make a go of it. She did make a go of it, however, by setting goals and making policies and year by year celebrated in whole or in dominant degree the attainment of what the forecasters had deemed impossible.

From 1950 to date, the real economic growth rate in Israel has averaged annually about 9.5 per cent and it has been even higher over the past five years. Japan has become the wonder of the world, but her economic growth rate has not equalled that of Israel.

The average annual increase in industrial productivity rose from about 2.5 per cent during 1950-53 to well above 8 per cent during 1967-72. In agriculture, the figure increased from 6.3 per cent during 1950-59 to somewhere around 8 per cent during 1965-72. Israel's import surplus, while rising in absolute amounts, declined from more than a 50 per cent ratio to GNP in 1950 to about half this ratio in 1972.

These multiple aspects of economic advance have been accompanied by a dedicated attention to what may be called the great socio-human domestic priorities, i.e., education, health, housing and others. Moreover, while meeting pressing needs at home, Israel has managed to contribute considerable talent and resources towards helping some underdeveloped nations to begin to rise out of their misery.

Thus the basic forecast for the next 25 years is that Israel will continue and add to the splendid record of economic and social progress achieved during the past quarter of a century.

It would be unseemly for me to offer any quantitative targets for Israel's future progress, but it may be appropriate to state qualitatively some of the challenges which lie ahead.

These challenges should be sought in the three ultimate goals of any economic system: to sustain an optimum rate of economic growth at full resource use and full employment; to allocate what is produced with due regard to the great national priorities; and to extend social justice.

Macro-economic approach

The popular Keynesian theory of economics, in my opinion, today requires a basic overhaul. Its main thrust has been to use fiscal and monetary policies to slow down the economy when it

Forecasting continued growth and progress in Israel's second quarter century, LEON H. KEYSERLING outlines some of the basic challenges the country will face. The author, who has often advised Israel on economic matters, was chairman of Truman's Council of Economic Advisers.

is running too rapidly, and to speed it up when it is lagging. But this macro-economic approach often results in selectivity. Thus it sometimes exercises too much restraint on activities which the nation needs most, and has inadequate effect upon those which are relatively too exuberant. Its impact upon the great domestic priorities can be unnecessarily severe, or it can militate against a just distribution of income. In general, the macro-economic approach does not deal sufficiently well with the requirements for equilibrium between the various parts of the economy. Thus, this approach should be combined with selective or micro-economic aspects.

This adjustment will become more pressing in future, as the need emerges for substantial shifts in the use of resources. Fast, soon, the main problem will be to expand living standards sufficiently to absorb fully (with defence needs) the growth in the nation's production capabilities, and thus to maintain reasonably full employment. In this connection I feel, on both economic and social grounds, that unemployment above 2.5-3.0 per cent is too high. If unemployment is not to be reduced through more defence spending and/or private investment, then it should be reduced by more private consumption and more domestic public services. Any such diminution of the ratio of defence spending to G.N.P. — which is to be hoped for some day — would accentuate this problem, and the time to start dealing with it is now.

Restraining inflation

These adjustments may require, among other things, an even more equitable distribution of income than is shaping up at present. Even if this is not entirely consistent with optimum economic growth, there seem to be compelling social, moral, and even political reasons for it in Israel, which should serve as a social rather than an economic model for the rest of the world.

Again, while rampant price inflation must obviously be avoided, there has been some tardiness in recognizing that the crucial issue is the impact of overall and selective price changes upon the allocation of resources and income, and consequently upon the three ultimate purposes of growth, priorities, and justice. Price policy should be a derivative of the equilibrium model rather than of any insupportable theory of the virtue of price stability per se.

Above all, it is essential to discard any lingering adherence to the dogma of the "trade-off" — that at times lower prices should be sought through large deliberate increases in unemployment. The losses thereby incurred far outweigh, both economically and socially, the margin improvements in price behaviour which are assumed to follow. In the long-run, stable economic growth at an optimum rate and sustained full employment generate smaller price inflation than alternate periods of slowdown and speedup.

High interest rates imposed to fight inflation impede economic growth; as they redistribute income regressively, they sometimes restrain activities which are proceeding too slowly, and sometimes incite those which are mov-

ing too fast. The economic slow-down, at times the very purpose of increased interest rates, can be inflationary. In themselves, excessive interest rates are highly inflationary, because the higher money costs are pyramided throughout the price structure. A much more selective monetary policy is called for on all grounds.

Cutting import surplus

It is clear that Israel's international economic position makes a competitive price level essential. But there seems to be no convincing evidence that an adequate calculation of costs and benefits has been developed to determine at what speed the import surplus should be reduced, or through what kinds of imports and exports. This question requires a much closer consideration of the interactions of domestic and international economic policies. It is not true automatically and under all conditions that the most rapidly attainable expansion of exports, or the most rapidly attain-

able working down of the import surplus, is the formula most compatible with the three ultimate objectives of economic policy.

In view of the foregoing, it may be said that Israel has developed highly workable and rewarding policies and programmes. But these should be better integrated and more consistent, in terms of long-range quantitative goals for growth, priorities, and justice. A long-range (5 to 10-year) Economic and Social Performance Budget would harmonize these inter-related goals, define the allocation of resources and income conducive to these goals, would develop policies accordingly, and retest their efficacy from year to year. This would reduce a tendency to regard price, wage, and profit trends, monetary and fiscal policies, and international economic policies as ends in themselves, without regard for their impact upon the ultimate objectives of a nation and a people.

This does not presuppose any particular philosophy of the dis-

tribution between private and public responsibilities and activities, nor interfere with the sound concept of a mixed economy. It merely calls for a more sophisticated method of arriving at and implementing decisions. By disseminating more cogent information as to the course being followed, a Performance Budget could reduce the sharp divisions which might hamper Israel's progress during the years ahead.

All else depends upon the attainment of a lasting peace. And while there are many prerequisites for peace, none is more important than the emergence everywhere of economic and social systems which guarantee to their people the material goods and justice to which human beings are entitled. In this field, Israel could perform its greatest mission during the next quarter-century, by expanding the example it has already set — that any nation can afford what it sets out to do within reason; that the moral law must guide all else; and that success depends on the character of the people and the system under which they live.

The author is the former chairman of President Truman's Council of Economic Advisers. He is President of the U.S. Conference on Economic Progress and of the National Committee for Labour Israel.

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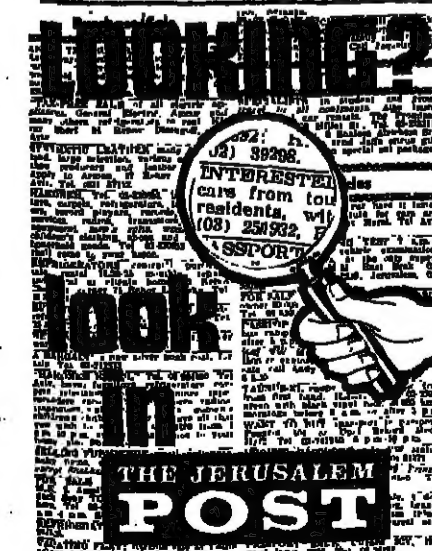
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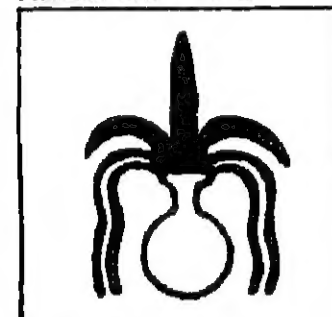
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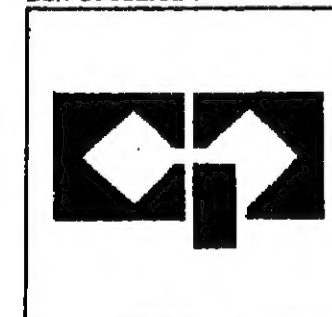
King David Hotel



Dan Carmel Hotel



Dan Caesarea Golf Hotel



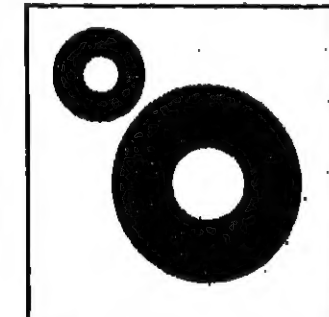
Isasbest



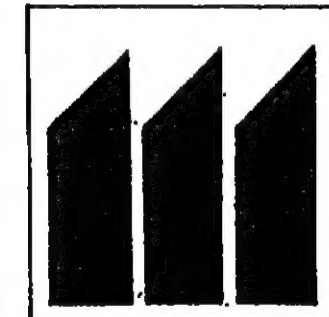
Zantar



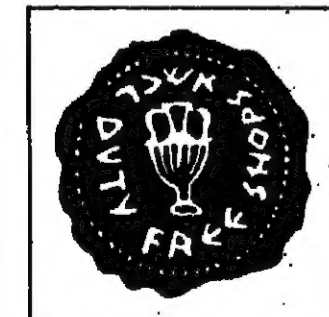
Atamco



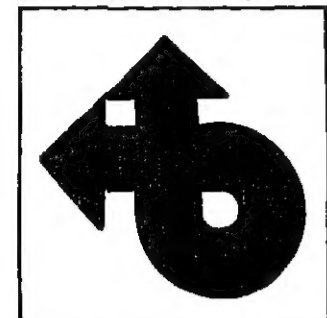
Tagiv



Eshkar



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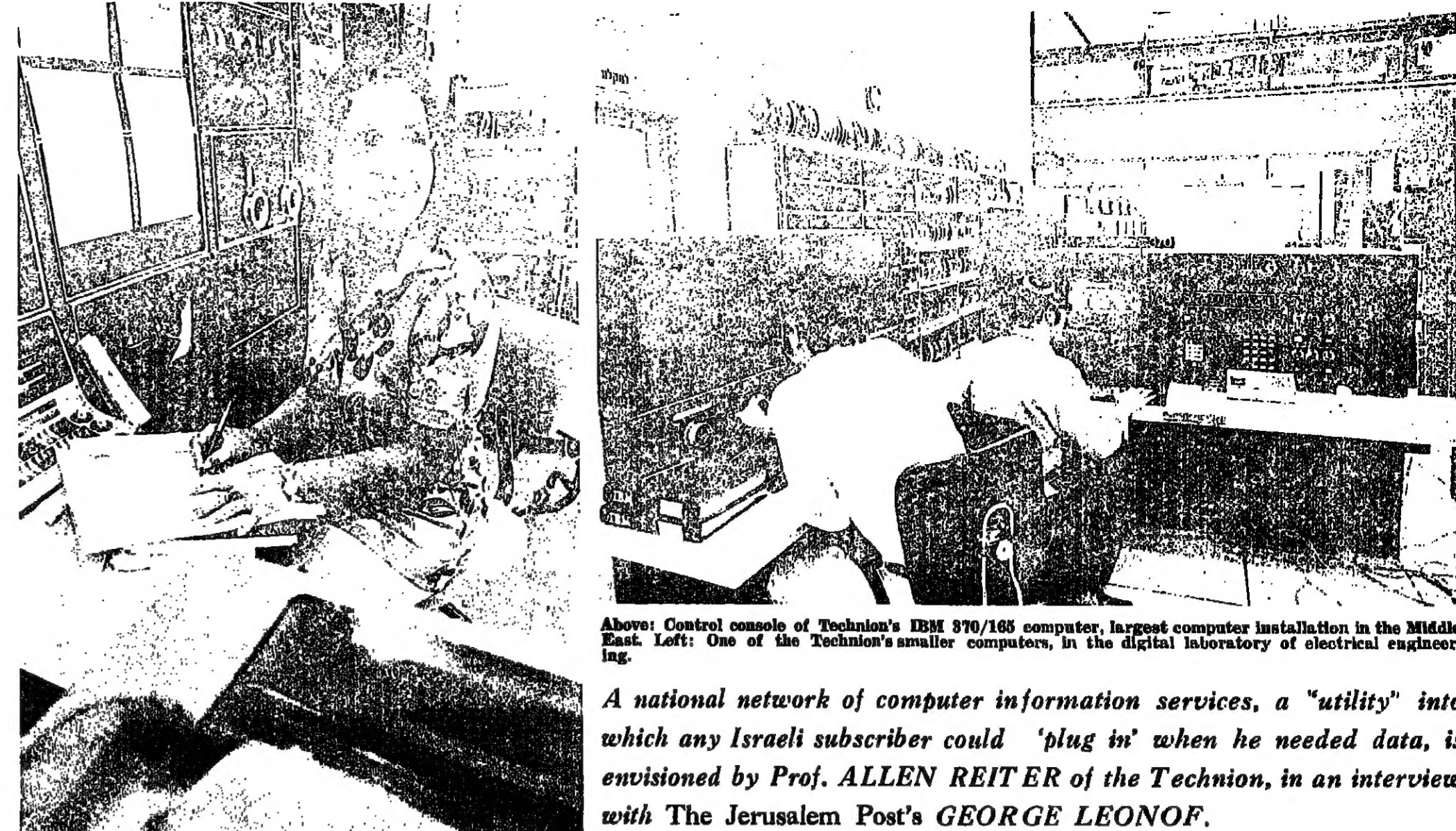
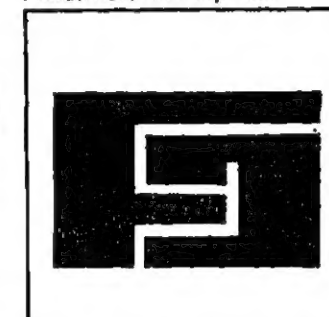
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Above: Control console of Technion's IBM 370/165 computer, largest computer installation in the Middle East. Left: One of the Technion's smaller computers, in the digital laboratory of electrical engineering.

A national network of computer information services, a "utility" into which any Israeli subscriber could 'plug in' when he needed data, is envisioned by Prof. ALLEN REITER of the Technion, in an interview with The Jerusalem Post's GEORGE LEONOF.

THE COMPUTER EXPLOSION

Israel in the last few years has experienced a computer explosion which has boosted it up among Europe's most computer-conscious countries.

"Britain, France, Germany and Switzerland are ahead of us, but we are keeping abreast of other countries on that continent, and have outstripped such important states as the Soviet Union and Italy," says Professor Allen Reiter, head of the Haifa Technion's Computer Science Department.

The 36-year-old mathematician, a recent immigrant from Palo Alto, Texas, is enthusiastic about the future development of the science. He foresees a nationwide computer network which would do away with redundancy and unnecessary expense, providing "piped" computer service to all who require it. "It would become a national utility, like water, power, or the phone," he says.

Today the Government already has the largest computer centre in the country, operated by the Finance Ministry in Jerusalem, with branches in Tel Aviv and Haifa, and the ability to connect with remote points. "This opens up new vistas," Prof. Reiter points out. "Today Eilat, say, needs a machine only to 'read' or print computer information — but the actual computerization would be done in Jerusalem."

Networks

He says that people in Israel are already thinking in terms of setting up communal computer networks which would tie into a number of large machines. "For one thing, different computers have different capabilities, but that is only a partial motivation. The most exciting aspect is that users could 'tie in' to obtain in-

formation at low cost. We are already beginning to have an outline of a computer utility. The cost of the machines makes such information prohibitive to all but large organizations, but a national network would make it generally available.

"Such a system already exists in the U.S., and a huge network ties in points from Hawaii across two oceans to London. Technologically, with satellite facilities available, it would be no problem for Israel to plug in to this

system, but so far this would have little more than 'prestige' value for us."

On the other hand, a national network would have far-reaching practical implications, he adds. "Take health, for example. Computers could keep track of patient data for hospitals, where today some 70 per cent of the nurse's work is spent in clerical work. New patients can be 'questioned' by computers. One promising field is diagnosis, for a computer can spot and bring out abnormalities

much faster and with a lesser degree of error than a doctor. In Tel Hashomer's Heart Institute, electrocardiograms are already being analysed by computer — a relatively simple process. Hospitals throughout the world have daily resort to computers, but it takes several million pounds to install an effective system. A network would give hospitals the opportunity to computerize time-consuming processes, and the expense would be fully justified by results."

Professor Reiter says that the Government is now making an effort to unify the various branches. This can be done efficiently only by computers, which would make it possible for an official quickly to obtain "total information" about any person. The various components of this information are today distributed among "various government bodies who don't talk to each other."

"The implications of this, of course, are rather dangerous," he adds, perhaps with the Watergate scandal in mind.

Cracking codes

There is also the question of "computerized crime," he pointed out, although this has so far been limited to the U.S. For example, there are many private companies working on computer systems which they sell to clients. A capable operator with the means of tying in to a system could "crack" a programme which has been evolved as a result of much work. "It's something like cracking codes," Prof. Reiter explains.

He recalled the case of one clever bank programmer who "stole" something like \$20,000 in several months which actually belonged to no one. In computing interest on private deposits, American banks round out fractions downward. Legally, the fractions belong to the clients, who neither get them nor claim them. The employee programmed a computer to credit the fractions to his own account, but was finally caught out by a sharp-eyed clerk, by chance.

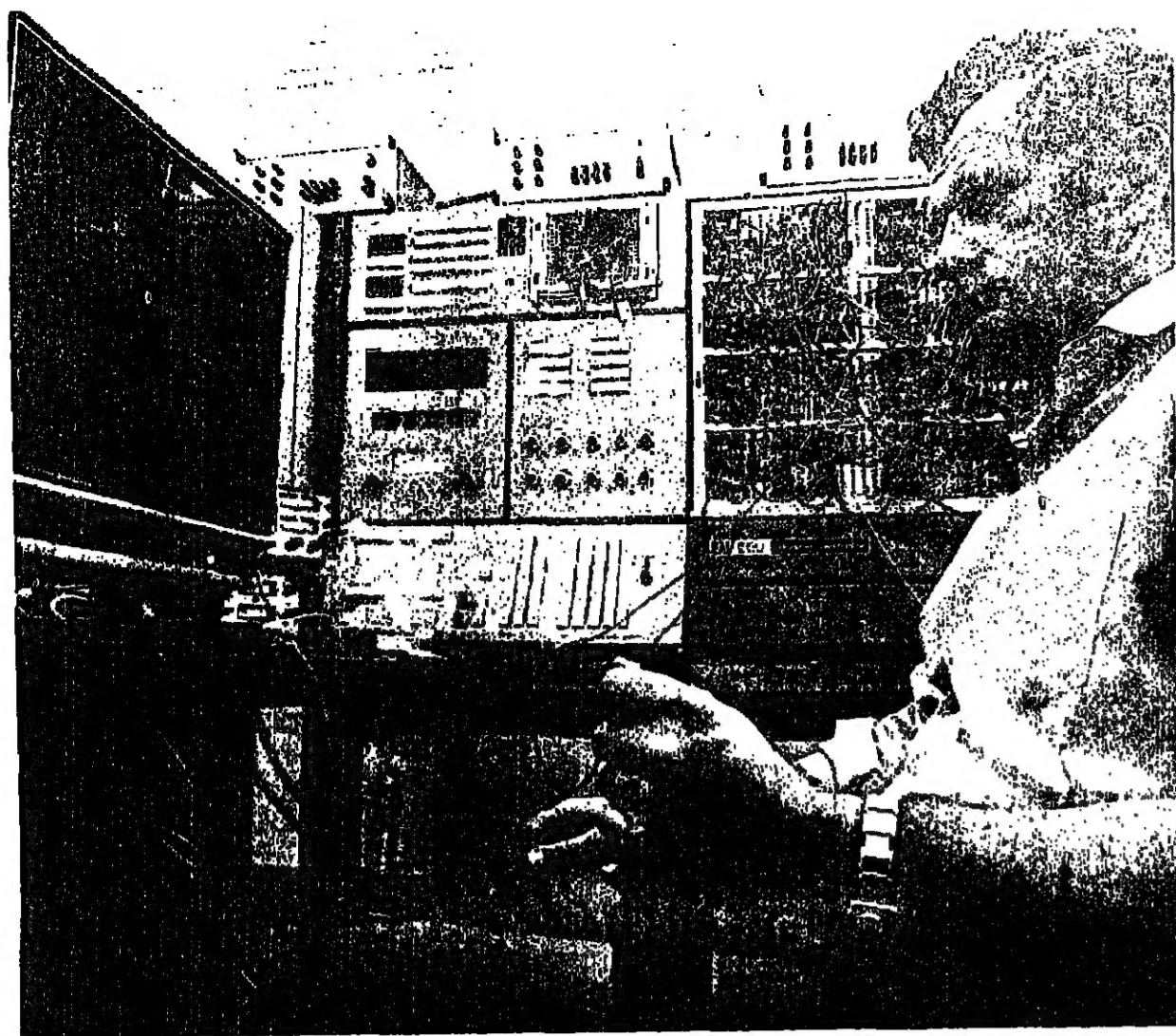
Turning to Israel computer science development, Prof. Reiter says its progress in this advanced field is particularly re-

(Continued on page 46)



Most of the Technion's 3,500 students learn computer programming. Here the decks of computer cards are handed to a despatcher, who runs the students' programmes.

מכון מנחם



Dr. Samuel Merhav is seated at the "controls" of an experimental computer-based, pilot-plane research system, in Technion's aeronautical engineering laboratories. With his left hand he manoeuvres a control stick, attempting to keep a square object (representing his aircraft) centred on a crosshair on the CRT display (left). Dr. Merhav's research aims at improving pilot performance through research into man-machine relationships.

THE COMPUTER EXPLOSION

(Continued from page 45)

markable because it was a late-comer on the scene. The first commercial computers were acquired only in 1963. The U.S. still the acknowledged leader in the science, had them functioning in 1951. It was only in the last few years that Israel shot forward, "and its computerization was very American," he notes. Israel has closely followed developments in the U.S., and continues to do so.

Pointing to the Technion's own experience, Prof. Reiter said it was significant that in 1963, when the institute acquired its first small "thinking machine," only IL60,000 was budgeted for this branch of science. Four years later the allocation had risen tenfold, and the school was talking of getting its third machine. In 1971, after four more years, the budget had grown to IL6m, and the Technion was in the process of installing its fifth machine — including the IBM 370/160, then one of the newest and largest computers in the world.

Third in Israel

There were only two such machines in Europe outside of Britain at the time, but it was the third of its type in Israel. The Technion's computer growth — "and our department's budget is still climbing" — was typical of the situation in the entire country, he remarks, and has resulted in a tremendous demand for trained personnel to man the machines. Here the progress is necessarily slow. The Technion's computer science department was organized in 1969, and the first class of 10 students graduated only last year. This year's freshman class numbers 70, with another 90 students in the higher classes of what today is a four-year course.

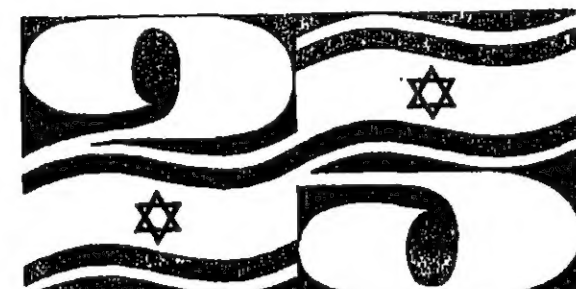


Prof. ALLEN REITER



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